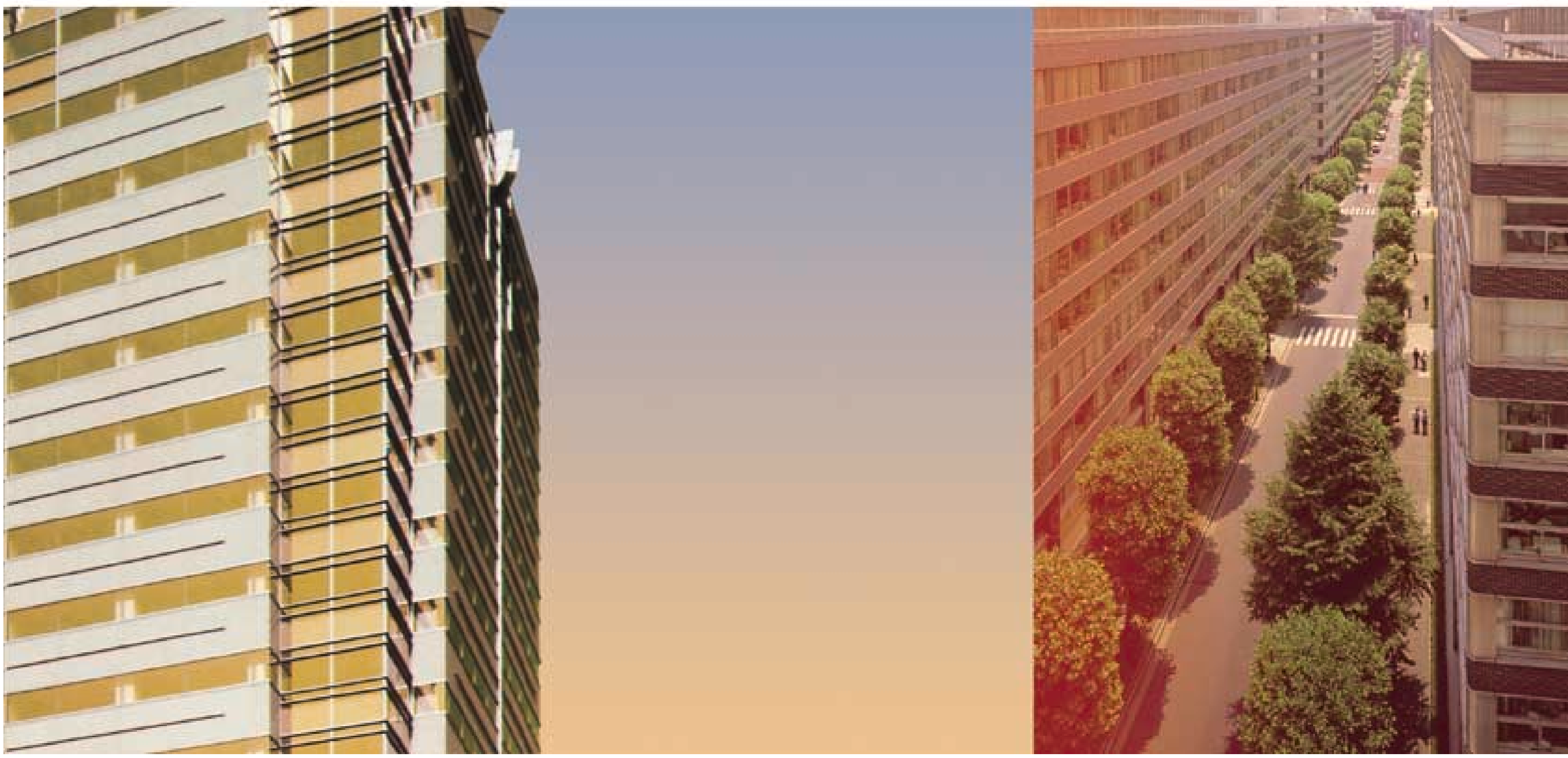
MITSUBISHI ESTATE CO., LTD. ANNUAL REPORT 2000



MITSUBISHI ESTATE CO., LTD. ANNUAL REPORT 2000

Profile

Mitsubishi Estate Group is a comprehensive real estate developer whose consolidated businesses include building leasing, residential development and sales, and architecture, as well as real estate brokerage and hotels. Operations are carried out in Japan as well as in major cities of the United States and the United Kingdom.

Mitsubishi Estate's redevelopment of the Marunouchi district, Japan's premier business center, is a major project that will set the standard for urban design in the 21st century and embody the Company's philosophy refined over the past 100 years of developing multifaceted communities.

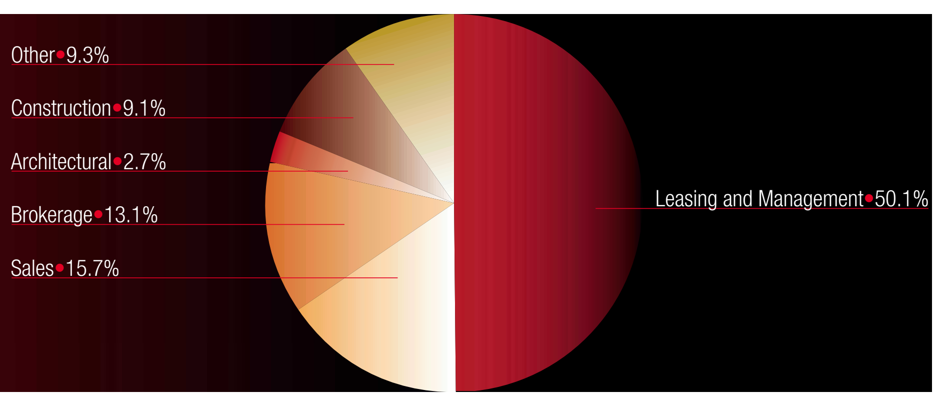
Contents

Financial Highlights (Consolidated)

		Millions of yen	Thousands of U.S. dollars
Years ended March 31	1999	2000	2000
Revenue from operations	¥ 565,259	¥574,396	$ 5,411,173
Net income	22,327	18,421	173,537
As a percentage of revenue from operations	3.9%	3.2%	
As a percentage of shareholders' equity	4.9%	4.1%	
Total assets	2,275,902	2,285,771	21,533,405
Total shareholders' equity	451,703	440,731	4,151,964
Common stock	86,534	86,534	815,205
		Yen	U.S. dollars
Per share amounts:			
Net income	¥17.19	¥14.18	$0.13
Cash dividends applicable to the year	8.00	8.00	0.08

Note: Yen amounts shown are translated into U.S. dollars, solely for convenience, at the prevailing exchange rate on March 31, 2000, of ¥106.15 to US$1.00.

Revenue by Segment (Percentage Share)



To Our Shareholders

During the fiscal year ended March 31, 2000, Mitsubishi Estate Co., Ltd. and its consolidated subsidiaries recorded revenue from operations of ¥574,396 million (US$5,411.2 million), up 1.6% from the previous fiscal year. However, operating income declined 0.9%, or ¥627 million (US$5.9 million), to ¥68,201 million (US$642.5 million). Net income fell 17.5%, or ¥3,906 million (US$36.8 million), to ¥18,421 million (US$173.5 million) owing to the adoption of tax-effect accounting.

In mid 1999, the Japanese economy emerged from a prolonged recession, supported by government economic stimulus measures and efforts made in the corporate sector. Although indications of a self-sustained recovery appeared at the beginning of 2000, a full-scale recovery is expected to be slow in coming.

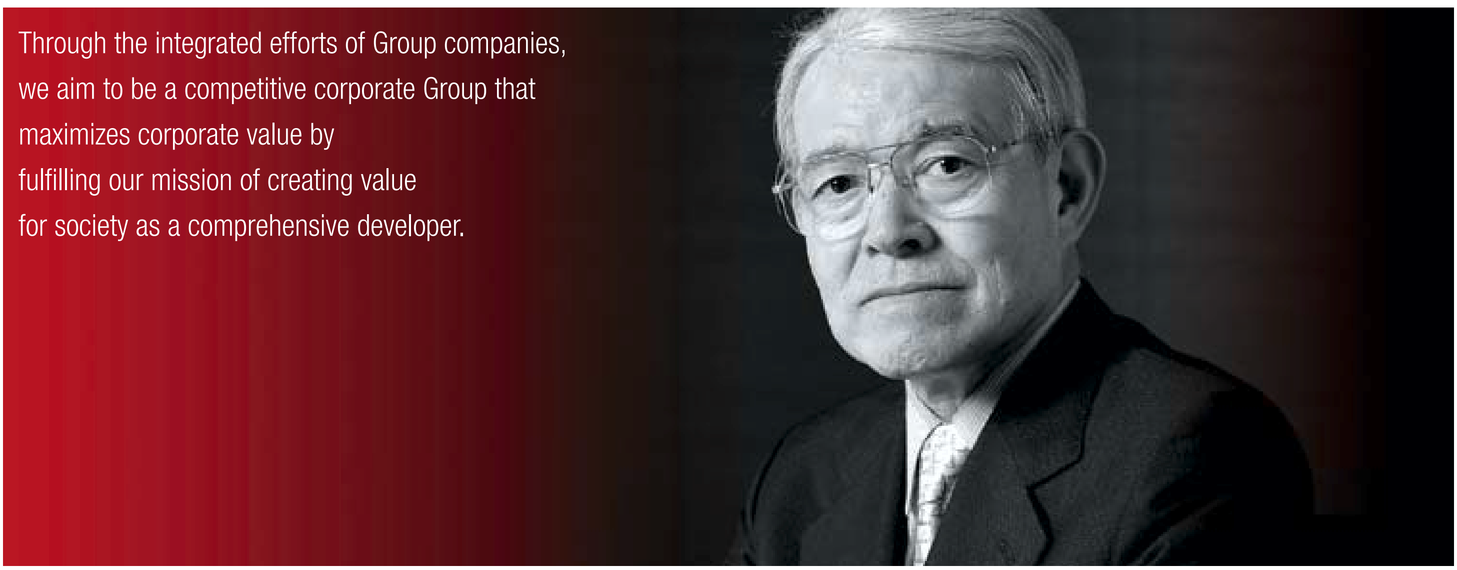
Conditions are gradually improving in the office building market following the upturn in economic conditions. Vacancy rates improved, with nearly full occupancy for newly constructed buildings in central Tokyo. However, competition among properties as well as among districts has intensified, and the trend toward a two-tiered market is expected to continue in the future.

In the residential market, condominium sales are recording solid growth amid decreased residential taxes and low interest rates, but future trends are unpredictable due to uncertainties concerning the tax system and interest rates.

Creating a Competitive Corporate Group Through Structural Reform

Amid a challenging operating environment in the real estate industry and the advance of globalization, Mitsubishi Estate is implementing structural reform to prepare for further expansion in the 21st century. In April 2000, we converted all Group operations to a divisional structure. Accordingly, the Group will be separated along strategic lines, with a clear system for delegating authority and responsibility. We expect the new structure to support improved asset efficiency in each division.

Business areas comprise the three major divisions of Building Business, Residential Development and Architectural Design & Engineering, plus the five divisions of Urban Development and Investment Management, International Business, Custom-Built Housing, Hotel Business and Recreational Facility. Strategic development, including development of affiliated companies, will be accelerated by transferring authority to head officers at each divi-



sion, and by defining the responsibilities within each business field.

Further, we are concentrating resources into core business fields through critical reassessment of unprofitable businesses. In December 1999, these steps led to the liquidation of the Group company, *Onikobe Kogen Kaihatsu*, which managed a ski resort in Miyagi Prefecture.

To further extend the divisional structure, we will transfer the Hotel Business Division operations to a subsidiary to be established in the current fiscal year. We aim to also transfer operations of the Architectural Design & Engineering Division to a subsidiary in April 2001.

While reviewing our business areas, we are enhancing management effectiveness. In April 2000, our previous executive board was replaced by an executive committee to establish Groupwide management goals and plans, as well as accelerate decision making. We are also expanding outsourcing of service jobs in the administrative division, and reducing expenses through increased efficiency.

The mission of the Mitsubishi Estate Group is to “Create a Truly Meaningful Society through Urban Development.” We aim to be a competitive Group that maximizes corporate value. In the current fiscal year, the Mitsubishi Estate Group announced its mid-term Group management plan. By March 31, 2003, we aim to achieve an ROA of 3.9% and an interest coverage ratio (ICR) of 2.5 times.

Marunouchi Redevelopment for Inter-District Competition

The key to improving profitability of our mainstay business of office building leasing lies in the redevelopment of the Marunouchi district, which is the base of operations for the Mitsubishi Estate Group. Currently, we are redeveloping Marunouchi into a highly profitable business district. Our strategy for redeveloping the district into a competitive commercial area that can prevail over inter-district competition is founded on the following four strategies: 1) accelerate redevelopment; 2) upgrade building functions through renovation; 3) strengthen the infrastructure to take advantage of the integration of our buildings; and 4) implement an integrated marketing program.

Although the supply of large-scale office buildings will begin to increase in the central Tokyo area, Marunouchi is well positioned with a superb corporate infrastructure and unparalleled advantages of having over 4,100 companies concentrated in the area. In the increasingly crucial area of IT, the Marunouchi district is served by the communications networks of a variety of carriers, making it the area with the most established information infrastructure in Japan. From the spring of 2001, the Mitsubishi Estate Group will install its own extensive fiber-optic network, further raising the superiority of the Marunouchi information infrastructure. By utilizing these advantages, we intend to redevelop the district into Japan’s premier commercial district.

Full-Scale Introduction of J-REIT Business

In Japan, high growth is expected for markets that link real estate with financial markets. The Mitsubishi Estate Group is pursuing the potential of various fee-based businesses. Accordingly, Mitsubishi Estate established the Urban Development and Investment Management Division as one of the strategic divisions within the structural reform of April 2000, and we will make a full-scale entry into the Real Estate Investment Trust (REIT) business. As the

Nakadori Avenue, Marunouchi business district in Tokyo

first stage, Mitsubishi Estate will partner with other companies to establish a REIT. Through Groupwide efforts, we aim to develop this fund into Japan's representative REIT, and to stay one step ahead of current trends and seize critical business opportunities.

As a comprehensive developer, the Mitsubishi Estate Group is committed to promoting consolidated management, increasing Group profitability and contributing to the creation of a truly meaningful society. Making use of the expertise we have accumulated thus far in the urban development business, our vast storehouse of knowledge in building management and our business development capabilities, which are in high demand today, we plan to build businesses to become a Company that produces added value in the new century. We look forward to the support and cooperation of our shareholders.

Takeshi Fukuzawa
President

July 2000

Business Information

Building Business Division

Concentrating Our Vast Expertise,
from Development to
Operation and Management,
in the Development of Marunouchi

Shigeru Takagi
Head Officer of the Division
Executive Vice President

The Building Business Division is engaged in the leasing and subleasing of the Group's office buildings, as well as property management, parking lot operations and district heating and cooling. Beginning with Marunouchi, Japan's premier business center, we are expanding our building leasing business in key metropolitan areas in Japan that include the Tokyo metropolitan area, Sapporo, Sendai, Nagoya, Osaka and Hiroshima. At fiscal year-end, floor space of leased buildings totaled 4,050,000 square meters. We are also developing shopping centers in various areas of Japan such as The Landmark Plaza in Yokohama, the IMS in Fukuoka and Aqua City Odaiba in Minato-ku, Tokyo.

Through Group companies, Mitsubishi Estate is aggressively involved in fee-based businesses, such as the operation and management of leased buildings. In addition, we are developing urban functions through integrated Group business in parking lot operations and district heating and cooling in the Marunouchi district and Aoyama in Tokyo, Osaka Amenity Park (OAP) and Yokohama "Minato Mirai 21."

Integrated Business from Development to Management

The Building Business Division is reforming its organization to build an integrated business model, from development to operation and


Aqua City Odaiba opened in April 2000.

management, and promote the redevelopment of the Marunouchi district. We are also improving the functions and efficiency of property management, and improving customer satisfaction by converting to a marketing structure that more accurately reflects tenant needs, while enhancing profitability by strengthening marketing capabilities and promoting new lease contracts.

Redevelopment of Marunouchi as a Key Strategic Measure

We plan to invest ¥500 billion to redevelop the Marunouchi district, the Group's core business project spanning 10 years from 1998 to 2008, and develop spaces that merge business with amenities. We are implementing the following four strategies to contribute to the effective redevelopment of Marunouchi: 1) accelerate redevelopment; 2) upgrade building functions through renovation; 3) strengthen the infrastructure to take advantage of the integration of our buildings; and 4) implement an integrated marketing program.

Accelerating Redevelopment

Reconstruction of the Marunouchi Building has proceeded smoothly, and joint reconstruction of the Eiraku Building and the adjacent hall owned by the Japan Industrial Club was initiated in February 2000. Plans call for reconstruction of the headquarters of the former Japan


Marunouchi Café adds a new dimension to Marunouchi.

National Railways to begin in 2001, and we aim to announce new reconstruction plans for the project within the year. We will also accelerate the redevelopment of the Marunouchi district by fully utilizing a variety of methods such as joint ventures and securitization, represented by joint development of the former Japan National Railways headquarters site with Nippon Life Insurance Company, as well as the sale of the Chiyoda Building to The Meiji Mutual Life Insurance Company in April 1999.

Renovation for Improved Functionality

For existing buildings not under reconstruction, we will increase competitiveness by adapting to the needs of IT-related companies and financial institutions using enhanced electric supply capacity and advanced environmental control systems.

Reinforcing Infrastructure to Take Advantage of Integration

An increasing number of telecommunications carriers have built communications infrastructures in the Marunouchi district. To make it easier for our tenants to receive comprehensive services from many carriers in the future, the Mitsubishi Estate Group is providing a comprehensive fiber-optic network and working to enable 24-hour, international information services.

The Group made full use of the advantages provided by the integration of its buildings in the Marunouchi district by receiving low-cost electric power from new providers in response to market liberalization.

Implementing Strategic Marketing Measures

In addition to attracting companies that will be the backbone of the 21st century economy, such as IT-related companies and financial institutions, the Mitsubishi Estate Group aims to improve the amenities of the area and create an attractive, multifaceted environment. By attracting brand-name stores, cafes and restaurants to *Nakadori Avenue*, the main street running through the district, we intend to add an element of fashion and entertainment to the business-oriented Marunouchi district.

The Group will redevelop the Marunouchi district by rapidly and steadily carrying out the four strategies outlined above.

Highlights

◀Marunouchi Building (Tentative Name)

Reconstruction of the Marunouchi Building began in April 1999 as the first step in redeveloping the district. The new building will have four levels underground, 37 floors aboveground and a height of 180 meters. While partially preserving the traditional design of the original Marunouchi Building, the new structure will be equipped with intelligent building functions supported by the latest technology. The reconstruction of the Marunouchi Building is a rebirth for the district as well as a step toward a new era for the Mitsubishi Estate Group. Completion is scheduled for August 2002.

▶Joint Reconstruction of Japan Industrial Club Hall and Eiraku Building

In February 2000, we initiated reconstruction of the adjacent hall owned by the Japan Industrial Club and the Eiraku Building. Upon completion, the new building will have four levels underground, 30 floors aboveground and a height of 143 meters. We aim to create a comfortable, highly functional office space while protecting the historical look of the hall, including preservation of the beautiful south face. Construction is scheduled for completion in 2004.

◀Sanno Park Tower

In January 2000, construction of the 194-meter, 44-floor Sanno Park Tower was completed. The Mitsubishi Estate Group used its comprehensive strengths to make advances in fee-based businesses in various stages of the process from design and supervision to subleasing and building management.

▶Kakyoin Square

Construction of the high-rise office building Kakyoin Square was completed in Sendai in October 1999. Mitsubishi Estate is involved as a landowner, and made use of its expertise in urban redevelopment to complete the construction. At 106 meters with 23 floors, this intelligent building is a new commercial base with office space that is both refreshing and enjoyable.

Residential Development Division

Providing High-Quality Residential Environments that Address Diverse Customer Needs

To provide high-quality residential environments that address diverse customer needs, the Residential Development Division develops and markets condominiums, single-unit homes and residential land from the customer's perspective. We also provide consulting services for the effective use of real estate, management of condominiums and real estate brokerage services. In the condominium business, we are providing high-quality housing throughout Japan that utilizes the unique features of each site. In large-scale developments such as the Izumi Park Town project in Sendai we create entire communities by providing residents with a convenient, comfortable lifestyle in harmony with nature.

Strong Group performance was supported by the sweeping views and superior facilities provided by our high-rise, large-scale condominiums, and by convenient urban locations with pleasant surroundings. With rising consumer interest in quality, durable housing, our well-planned real estate products have remained highly competitive.

Providing Attractive Condominiums Through Superior Technological and Planning Capabilities

To address the needs of increasingly demanding consumers, the Group plans to concentrate efforts on developing projects in attractive surroundings and on high-rise condominiums.

Construction was completed in February 2000 for Park House Nishi-Azabu in Minato-ku, Tokyo.

Developments of between 30 and 100 units represent efficient investments with rapid capital turnover. Furthermore, larger high-rise condominiums provide a substantial return per project. We aim to provide approximately 2,600 units focusing on these two types of developments in the fiscal year 2001.

Based on this strategy, the condominium business is organized by type, such as short-term and long-term businesses, to form a structure that enables more efficient pursuit of profit. While strengthening local information-gathering capabilities and marketing activities via a thorough area-based system, we will concentrate on new product planning and development and increase the competitiveness of our properties. In March 1999, we established a tie-up with the popular merchandise brand "Afternoon Tea," and are currently developing highly popular condominium complexes such as Gardencesia in Machida, Tokyo and Park House Higashiyama in Hiroshima.

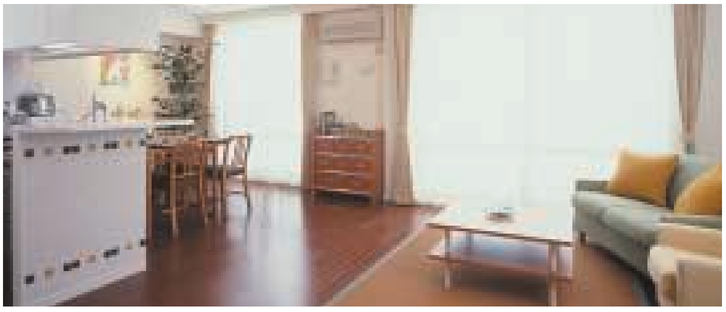
Expanding into New Fields in Line with Increased Housing Stock and Growth in the IT Industry

We established the Customer Service Office within Mitsubishi Estate in April 2000, and will work to develop the new business in order to enhance our daily post-sales service capabilities, target new business opportunities such as renovation contracts, and improve customer satisfaction in conjunction with the Daiya Community Co., Ltd., a condominium management subsidiary.

The Mitsubishi Estate Group is also fostering fee-based businesses. In addition to our Partner Program, which helps landowners make effective use of real estate, we are working to expand orders for due diligence services at the subsidiary Mitsubishi Real Estate Services Co., Ltd.

Advancements in IT are having a profound influence on the real estate industry. In April 2000, we launched the condominium information web site, "Major 7," in collaboration with other leading companies in the condominium industry, and plan to make Groupwide efforts to advance Internet strategies centered on Mitsubishi Estate.

Highlights



Gardencesia

Gardencesia, in the Tokyo suburb of Machida City, is a large-scale condominium development comprising 686 units. This property consists of condominiums tailored to the lifestyle needs of customers, adopting the lifestyle-centered approach developed by the popular general merchandise brand “Afternoon Tea,” and is highly regarded for its common-use facilities and distinctive interior and exterior designs. Construction is scheduled for completion in June 2001.

Izumi Park Town

The Izumi Park Town project has been under development since 1972 in Sendai, Miyagi Prefecture. The area measures 1,070 hectares and is the largest private multifunctional development in Japan, with a population of approximately 50,000 residents. In addition to single-unit homes and condominiums, office buildings, sports facilities, hotels and shopping centers, a variety of public buildings such as libraries contribute to the perfect balance among “living, working, resting, learning, gathering and enjoying.”

The Yokohama Towers

The Yokohama Towers, a high-rise condominium development with 852 condominiums, are the tallest towers in Yokohama at 140 meters high. In the center of the Yokohama portside area, currently undergoing a dramatic renovation, the towers are conveniently located 11 minutes from Yokohama station and have the unique advantage of being located on the waterfront in Yokohama. We aim for The Yokohama Towers to be the “tallest” and the “best” condominium towers available in Yokohama. The first phase of construction is scheduled for completion in November 2001.

KY Building (consigned development)

Mitsubishi Estate’s Partner Program responds to the needs of landowners for project planning, building design and management, construction, operation and tenant leasing, as well as effective land utilization. In the KY Building project, we have made optimal use of the site next to the JR Otsuka Station in Tokyo and prepared an operational framework for multiple facilities, such as hotels and restaurants that reinvigorate the area and use land in a manner satisfactory to landowners. Construction was completed in September 1999.

Architectural Design & Engineering Division

Our Preeminent Architectural Offices Support Comprehensive Real Estate Development

Katsuhisa Shimada
Head Officer of the Division
Senior Managing Director

The Architectural Design & Engineering Division uses its technological capabilities to support the Mitsubishi Estate Group's business as a comprehensive real estate developer. Its activities range from the design of buildings and civil engineering structures to building renovation, urban planning and a variety of consulting services.

A team of specialists is established for each building category, including office buildings, residential units and hotels, as well as commercial, cultural, medical and manufacturing facilities, forming a design group capable of responding to the most demanding requirements. The Division also prepares proposals for urban infrastructure, civil engineering and harbor facilities; conducts feasibility studies and studies for project approval; and provides design and supervision services. Other activities include support for the Residential Development Division in civil engineering and construction projects, and interior construction for tenants.

Mitsubishi Estates' Architectural Design & Engineering Division employs over 500 architects and design specialists, forming one of the preeminent architectural offices in Japan. With the inclusion of MEC Design International Corporation, whose mainstay business is interior design, the Division forms an important pillar within the Mitsubishi Estate Group and represents a source of competitive strength.

Architectural Design & Engineering Division to Form an Independent Unit in April 2001

The fiscal year under review marked the completion of the Sanno Park Tower, a large-scale building in which the Mitsubishi Estate Group has participated from the planning stage to building management. The Architectural Design & Engineering Division handled the design and supervision of the overall building as well as the interior construction for a large number of tenants.

Yokohama Landmark Tower represents the architectural expertise of the Mitsubishi Estate Group.

The Division also recorded steady progress in the design and supervision of large-scale redevelopment projects, including the Nippon Television Network Corporation's new head office in Shiodome and Mitsubishi Corp.'s new head office in Shinagawa.

In addition, we continued to win orders through highly competitive proposals, including the government contract for construction of the new campus of Kyushu University.

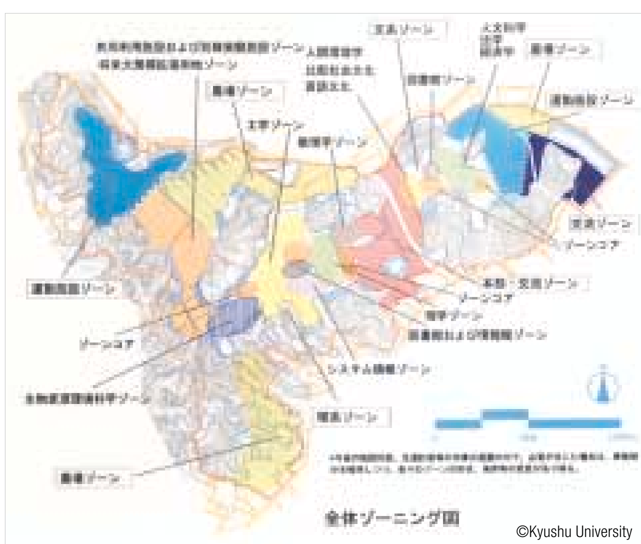
Through a reorganization in April 2000, we established three specialized offices—Urban Development and Management Office, Architectural Energy Consulting Office and Construction Management Office—to address the diverse needs of customers and expand business opportunities.

Plans call for the Architectural Design & Engineering Division to be converted to a subsidiary in April 2001. We intend to use this as an opportunity to further raise our strengths as we develop a managerial and organizational structure suitable for an independent architectural design office, and increase management efficiency. To achieve this aim, we will make efficient use of human resources, enhance our marketing capabilities, advance thorough cost management, expand our customer base and raise competitiveness.

Highlights

Nippon Television Network Corporation’s New Head Office in Shiodome

In January 2000 a groundbreaking ceremony was held for the construction of Nippon Television Network Corporation’s new head office in Shiodome. Richard Rogers, who has been involved in the basic planning stage, helped achieve an expressive design that reflects the role of a television station as an information exchange base. The whole building is covered in transparent glass to convey the image of an open broadcasting station, and has a simple layout that features studios on the lower levels and offices on the upper floors. Completion is scheduled for April 2003.



Nagoya Plant of Kirin Brewery

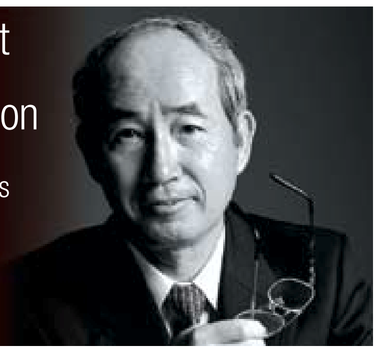
The Nagoya Plant of Kirin Brewery Co., LTD., which was renovated in 1997 under the supervision of Mitsubishi Estate, won the Building and Equipment Life Cycle Association (BELCA) Award in the category of Best Reformation Building in 1999. This award recognizes those who develop superior buildings through proper maintenance and building repair. In the reconstruction of the Nagoya Plant, originally constructed in 1962, the Architectural Design & Engineering Division broke with the traditional approach of renovating to a more flexible approach of retrofitting, and was evaluated not only for the extension of the building’s useful life, but also for accentuating the unique features of the building and creating new value.

Acceptance of Proposal for the New Kyushu University Campus

In November 1999 the proposal from a design joint venture formed by Mitsubishi Estate and two other companies was selected as the winning design for the new campus of Kyushu University. The design was highly regarded for its reliability and practicality, as well as for accurately reflecting the general planning criteria set forth for the relocation of Kyushu University. We aim to initiate construction in the fiscal year 2002 upon concluding a formal contract, and are making progress on designs for the site, including plans for land utilization, traffic and landscaping, as we design the master plan.

Urban Development and Investment Management Division

Developing Real Estate Funds that Attract Investors



Terutake Miyamoto
Head Officer of the Division
Managing Director

To respond to the ongoing integration of financial and real estate markets, the Urban Development and Investment Management Division handles such fee-based businesses as real estate development for real estate investment trusts and other securitization schemes, asset management for established real estate funds, consulting and real estate appraisal.

We will cooperate with other companies to establish a real estate investment trust fund company based on a new law allowing real estate funds. Real estate fund management is scheduled to begin in spring 2001.

We aim to list the new company's shares on the Tokyo Stock Exchange in the near future and contribute to the development of a real estate investment market that meets the needs of institutional and individual investors.

International Business Division

Strong Earnings Growth on the Back of Booming U.S. Economy

Takayuki Hara
Head Officer of the Division
Senior Managing Director

The International Business Division manages office buildings in the United States and the United Kingdom through the Rockefeller Group, Inc., headquartered in New York. The Division also participates in the real estate brokerage business through a global network organized by real estate services provider Cushman & Wakefield Inc. The economic boom in the United States has supported their considerable achievements.

In New York, construction work for Rockefeller Plaza West (745 Seventh Avenue), which began in 1999, is progressing smoothly and is scheduled to be completed in 2002. On a 17,000-square-meter site next to St. Paul's Cathedral in the City of London, the Paternoster Square Redevelopment Project has been started. The construction of six complexes comprising offices and shopping malls will be implemented.

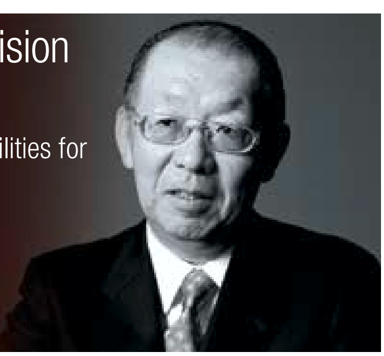
Custom-Built Housing Division

From Construction of Custom-Built Housing to Condominium Renovation

Taketo Yamazaki
Head Officer of the Division
Director
President of Mitsubishi Estate Home Co., Ltd.

The Custom-Built Housing Division constructs and markets custom-built housing. Our mainstay product is two-by-four single-unit houses. In October 1999, we launched a new product, ASSET JX ANY, and have been selling Eco-Feel brand environmentally-oriented homes since April 2000. The Division established a section for the renovation business in April 1999 and is expanding operations in renovation of single-unit houses and condominiums.

Hotel Business Division



Strengthening Group Capabilities for Integrated Management

Yutaka Nakamura
Head Officer of the Division
Managing Director

In the Hotel Business Division, the Mitsubishi Estate Group operates the Royal Park Hotels in seven major cities in Japan, including the Royal Park Hotel in Hakozaki, Tokyo. In recent years, the hotel business has experienced a severe operating environment resulting from intensified competition. By developing a network of Group hotels, Mitsubishi Estate aims to enhance efficiency through standardization of management, operations and services, while accumulating management expertise and improving operations. Plans call for integrated management, including affiliated companies that manage each Group hotel, through the transfer of operations to a new hotel management subsidiary to be established at the end of the current fiscal year.

Recreational Facility Division

Serving the Public Through the Operation of Sports Club

Kaoru Kohno
Head Officer of the Division
Managing Director

Operations in the Recreational Facility Division comprise the fitness clubs of Liv Sports Co., Ltd., as well as golf clubs and other leisure businesses. The Division addresses the issues of increased leisure time and the aging of the population. While developing the urban functions of Liv Sports fitness clubs, we are also involved in new club openings for the growing market in large-scale suburban fitness clubs, initiating construction of two new clubs in suburban Tokyo in April and July 2000.

Highlights

Paternoster Square Redevelopment Project

In May 1999, we started the Paternoster Square Redevelopment Project in the City of London. The master plan, designed by the U.K. architect Sir William Whitfield, blends with the beauty of the adjoining St. Paul's Cathedral. Creating a lively atmosphere, six buildings will be located around the central open space. Based on the concept of the master plan, we have designated different architects for each building to create a distinguished square.

Five-Year Anniversary of Sendai Royal Park Hotel Opening

Sendai Royal Park Hotel of the Royal Park Hotels chain has entered its fifth year of operations. To celebrate, we held a charity event with the entire hotel opened to charitable donors.

ASSET JX ANY

Mitsubishi Estate Home launched a new model in October 1999 called ASSET JX ANY. The house has advanced thermal efficiency features that meet next-generation energy conservation standards, and employs a barrier-free design that enables easy modification of the basic plan in accordance with owner needs. The product is gaining a favorable response from first-time buyers owing to its low price.

Promotion of Environmental Affairs and Corporate Philanthropy

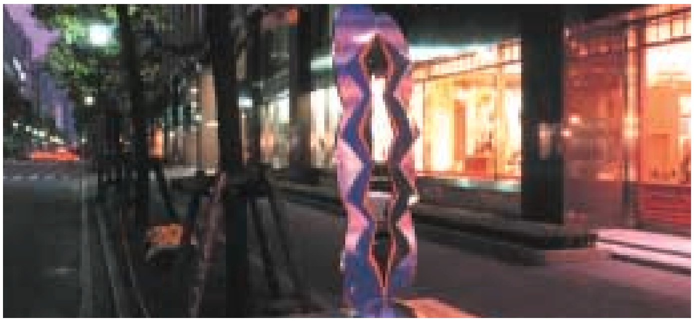
Upholding Our Responsibility as a Corporate Citizen

The Mitsubishi Estate Group is conducting activities in line with management values that are founded on a commitment to environmental stewardship and corporate citizenship.

In June 1999, Mitsubishi Estate acquired ISO 14001 certification for environmental management for its 36 office buildings. ISO 14001 certification was also obtained in October 1999 for all operations of Mitsubishi Estate Home. By engaging in environmental preservation measures to promote energy conservation, reduce waste and promote recycling, we aim to obtain certification for all Divisions of Mitubishi Estate in the near future. In May 1999 Yokohama Landmark Tower was awarded the first "The Excellent Building Mark of Environment and Energy," and the Marunouchi Building, currently under reconstruction, received the same mark in July of the same year.

To promote philanthropic activities, we are concentrating efforts on community exchange, environmental preservation and fostering the arts and culture in areas where we conduct business. Group employees act as community volunteers to support annual chamber music performances for the elderly and the physically handicapped and environmental study sessions for families. In cooperation with the Japan Audubon Society, we established the mostly volunteer-run Marunouchi Bird Song Plaza in October 1999 as a base for environmental preservation activities in the Marunouchi district. In Tokyo and Hiroshima, we are providing street galleries that exhibit sculptures. In addition, we are a co-sponsor of the NHK Symphony Orchestra and operate cultural facilities in major cities in Japan, in such areas as Fukuoka and Yokohama.

As a corporate citizen, the Mitsubishi Estate Group performs important roles in a wide range of areas that include academic research, education, international exchange and cooperation, social welfare and urban natural disaster planning. We will continue to carry out philanthropy and cultural promotion to nurture goodwill and deepen relationships with local communities.



A street gallery on Nakadori Avenue in Marunouchi

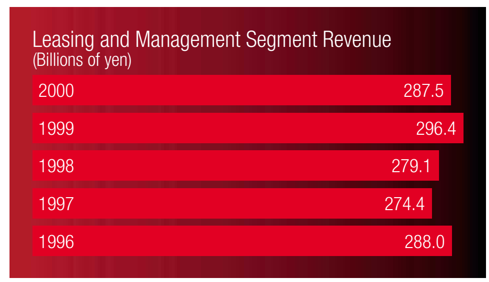
NHK Symphony Orchestra, co-sponsored by Mitsubishi Estate

Review of Operations

Leasing and Management


Marunouchi district

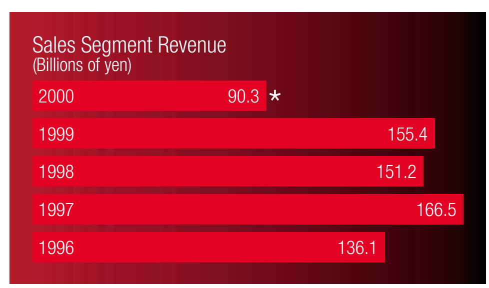
This segment comprises domestic building leasing and management, parking lot operations, district heating and cooling operations and the building leasing and management business of the overseas consolidated subsidiary RGI. During the fiscal year under review, major buildings completed and placed in operation included Sanno Park Tower in Tokyo. However, a prolonged downturn in the rental market and the sale of the Chiyoda Building resulted in reduced sales. An appreciation of the yen resulted in lower sales in yen terms. As a result, revenue in the segment declined 3.0% to ¥287,520 million (US$2,708.6 million).



Sales


Model unit in OAP Residence Tower

This segment derives revenue from the sale and management of condominiums and single-unit houses; the development of lots for residential and commercial use; and large-scale development. In the fiscal year under review, sales of condominiums were favorable as a result of government policies such as the reduction of residential taxes. With the absence of the sale of large-scale commercial property recorded in the previous fiscal year, revenue for this segment was ¥90,314 million (US$850.8 million).

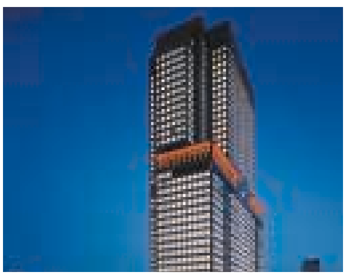


Brokerage

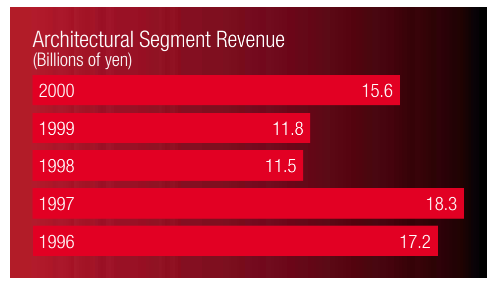
Revenue in this segment is provided by the consigned sales and brokerage services of Mitsubishi Real Estate Services Co., Ltd. and the overseas real estate brokerage business of RGI's consolidated subsidiary Cushman & Wakefield. For the fiscal year under review, higher revenue at Cushman & Wakefield on the back of the booming U.S. economy and strong domestic performance at Mitsubishi Real Estate Services resulted in revenue of ¥75,067 million (US$707.2 million).

Note: :*Brokerage revenue had been reported in the Sales segment in prior periods, but is presented as a separate segment in the current fiscal year reflecting the increased importance of the business.

Architectural


Sanno Park Tower

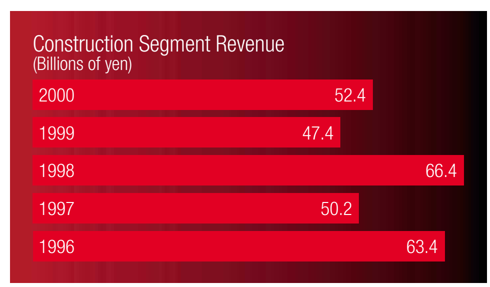
Revenue from the architectural segment derives from the design and project supervision of building and civil engineering construction, and interior work by the consolidated subsidiary MEC Design International Corporation. For the fiscal year under review, revenue rose 32.2% to ¥15,632 million (US$147.3 million), reflecting the large scale of architectural design work for such construction projects as Sanno Park Tower.



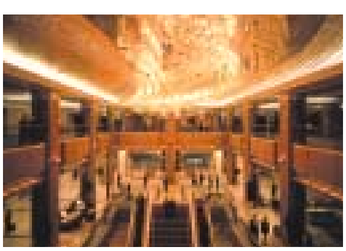
Construction


Asset Home series “Eco-feel”

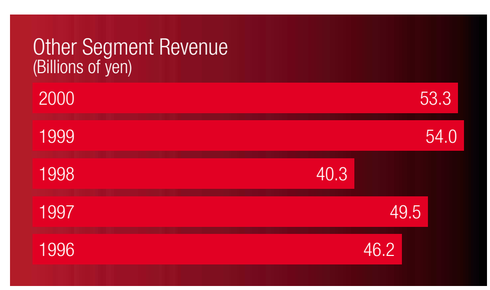
The construction segment revenue consists of interior building construction, contracted business as Partner Program and contracted construction for custom-built housing through the consolidated subsidiary Mitsubishi Estate Home. For the fiscal year under review, revenue increased 10.6% to ¥52,498 million (US$494.6 million) on the back of increased orders for custom-built housing at Mitsubishi Estate Home.



Other


Royal Park Hotel in Tokyo

The other segment consists of hotel operations, recreational facilities and real estate appraisal businesses, as well as the telecommunications business at the overseas consolidated subsidiary RGI. For the fiscal year under review, revenue declined 1.3% to ¥53,364 million (US$502.7 million), and the Mitsubishi Estate Group phased out its ski resort business with the liquidation of the Group company *Onikobe Kogen Kaihatsu*.



Financial Review

Analysis of Revenue

For the fiscal year under review, revenue from operations increased 1.6% to ¥574,396 million (US$5,411.2 million). Results and conditions by segment are discussed below.

Leasing and management comprises 50.1% of revenues. Revenue from this segment declined 3.0% to ¥287,520 million (US$2,708.6 million) as a result of a sluggish rental market.

The Sales segment comprises 15.7% of revenues. Despite favorable sales of condominiums, this segment recorded revenue of ¥90,314 million (US$850.8 million) due to the absence of large-scale commercial-property sales recorded in the previous fiscal year.

Brokerage comprises 13.1% of revenues. Revenue from this segment was ¥75,067 million (US$707.2 million) owing to higher revenue at Cushman & Wakefield and strong domestic performance at Mitsubishi Real Estate Services.

Architectural comprises 2.7% of revenues. For this segment, revenue rose 32.2% to ¥15,632 million (US$147.3 million), resulting from the large scale of architectural design work for such construction projects as Sanno Park Tower.

Construction comprises 9.1% of revenues. Revenue in this segment rose 10.6% to ¥52,498 million (US$494.6 million) on the back of increased orders for custom-built housing at Mitsubishi Estate Home.

The Other segment comprises 9.3% of revenues. This segment recorded a 1.3% decline in revenue to ¥53,364 million (US$502.7 million).

Analysis of Income

For the fiscal year under review, cost of revenue from operations rose 5.8% to ¥463,708 million (US$4,368.4 million), whereas selling, general and administrative (SG&A) expenses declined 27.1% to ¥42,487 million (US$400.3 million). The main reason for the decline of SG&A expenses was the reclassification of direct costs of hotel management companies—including personnel, outsourcing, water, heat and electricity expenses—from SG&A to cost of revenue from operations.

Operating income edged down 0.9% to ¥68,201 million (US$642.5 million), as lower operating income at the parent company due to weak performance in the leasing and management segment was offset by continued favorable growth at RGI in the United States and improved performance of Mitsubishi Real Estate Services and Mitsubishi Estate Home.

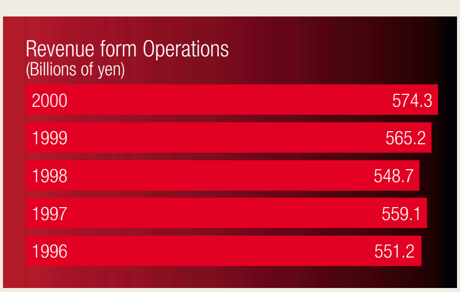
Other Income and Expenses

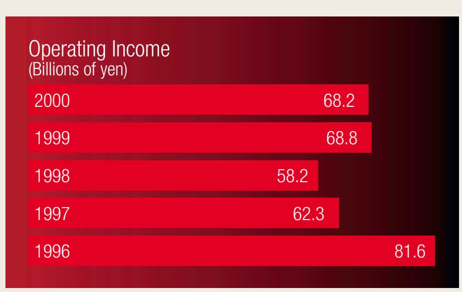
Interest and dividend income decreased 8.6% to ¥4,310 million (US$40.6 million), and interest expense declined 9.0% to ¥40,318 million (US$379.8 million), reflecting unprecedented low interest rates and lower levels of interest-bearing debt.

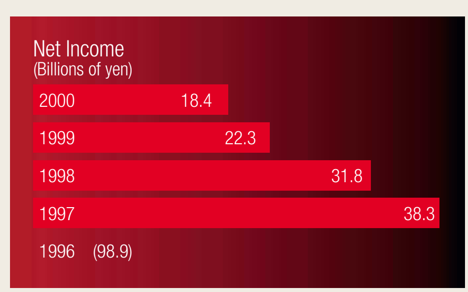
In other expenses, the Company recorded a valuation loss on inventories of ¥32,614 million (US$307.2 million), a loss on investment in affiliates of ¥7,015 million (US$66.0 million) and an amortization of prior service cost of pension plan of ¥8,664 million (US$81.6 million). Other income included a net realized gain on sales of property and equipment of ¥37,407 million (US$352.4 million) and net realized gain on sales of marketable securities of ¥18,012 million (US$169.7 million).

Net Income

In the fiscal year under review, the Company adopted tax-effect accounting and recorded deferred income taxes of ¥7,531 million (US$70.9 million). Net income was ¥18,421 million (US$173.5 million), down 17.5% from the previous fiscal year, and net income per share was ¥14.18 (US$0.13).







Analysis of Financial Position

Net cash provided by operating activities was ¥72,401 million (US$682.1 million). Net cash used in investing activities totaled ¥11,611 million (US$109.4 million), as the sale of the Chiyoda Building partly offset capital investment for the continued redevelopment of the Marunouchi district and renovation of existing buildings. Net cash used in financing activities was ¥57,331 million (US$540.1 million). Including the effect of exchange rate changes on cash and cash equivalents of ¥3,744 million (US$35.3 million), there was a net decrease in cash and cash equivalents of ¥285 million (US$2.7 million). With the addition of increase in cash and cash equivalents due to merger and acquisition of ¥47 million (US$0.4 million), cash and cash equivalents at end of year were ¥86,457 million (US$814.5 million), a decline of ¥238 million compared with cash and cash equivalents at beginning of year of ¥86,695 million (US$816.7 million).

Consolidated interest-bearing debt at fiscal year-end decreased 4.3% to ¥1,219,823 million (US$11,491.5 million), as management used cash flows from operating activities at Mitsubishi Estate, proceeds from the sale of the Chiyoda Building and sale of securities to reduce debt. Reduction of interest-bearing debt at the consolidated subsidiary RGI also contributed to the decline.

Total assets at year-end increased ¥9,869 million to ¥2,285,771 million (US$21,533.4 million). Total shareholders' equity fell 2.4%, or ¥10,972 million, to ¥440,731 million (US$4,152.0 million). The major factor for this decrease was the transfer of translation adjustments from assets to shareholders' equity.

Accordingly, the shareholders' equity ratio edged down 0.5 percentage point to 19.3%.

Management Initiatives

The Mitsubishi Estate Group announced its medium-term management plan on June 6, 2000. The Group's core business of real estate leasing requires substantial capital investment over a long period of time. Owing to the need to continuously evaluate and improve asset efficiency, we have adopted return on assets (ROA) and interest coverage ratio (ICR) as management indicators to improve asset efficiency and evaluate risk management.

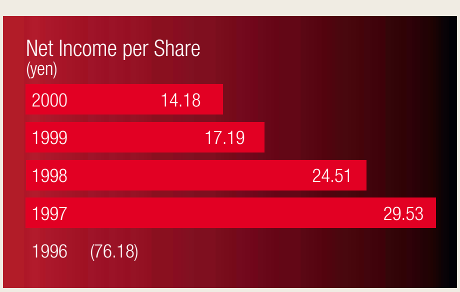
Compared with ROA of 3.2% and ICR of 1.8 times during the fiscal year under review, the plan targets ROA of 3.9% and an ICR of 2.5 times by the fiscal year ending March 31, 2003.

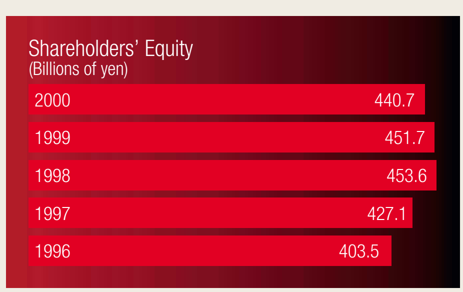
To achieve this objective, Mitsubishi Estate will accelerate the redevelopment of the Marunouchi district to contribute to future revenue and operating income for the Leasing and Management segment, while marketing both highly profitable condominiums with rapid turnover and high-rise condominium developments in the Sales segment.

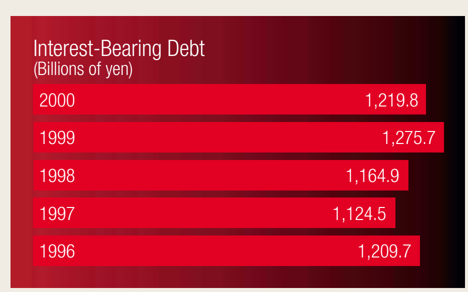
Mitsubishi Estate is committed to increasing fee-based businesses, including asset management for real estate investment trusts and orders for property management services.

Furthermore, to raise ROA through higher asset efficiency, we are shifting some assets off the balance sheet through such measures as securitization and sale to real estate investment trusts, while acquiring new assets for the redevelopment of the Marunouchi district. Through this policy, management aims to improve its operating ratios and financial position.

While using cash flows from sales of assets and higher profitability on operations to reduce interest-bearing debt, Mitsubishi Estate aims to improve its financial structure and raise its ICR by reducing interest rates from a medium-term perspective through flexible financing activities.







Financial Statements

Consolidated Balance Sheets

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
March 31, 2000 and 1999

Assets	Millions of yen 2000	Millions of yen 1999	Thousands of U.S. dollars (Note 3) 2000
Current assets:			
Cash *(Notes 7 and 13)*	**¥ 74,582**	¥ 70,525	**$ 702,609**
Marketable securities *(Notes 5 and 14)*	**87,585**	97,235	**825,106**
Notes and accounts receivable – trade	**49,274**	44,317	**464,192**
Allowance for doubtful receivables	**(4,744)**	(7,604)	**(44,691)**
Inventories *(Note 4)*	**235,297**	259,738	**2,216,646**
Deferred income taxes *(Note 8)*	**35,299**	—	**332,539**
Other current assets	**25,142**	29,562	**236,854**
Total current assets	**502,435**	493,773	**4,733,255**
Investments:			
Investments in and advances to unconsolidated subsidiaries and affiliates	**24,248**	24,562	**228,431**
Investments in other securities *(Notes 5 and 14)*	**9,615**	10,463	**90,579**
Other investments *(Notes 6 and 7)*	**125,320**	127,507	**1,180,593**
Total investments	**159,183**	162,532	**1,499,603**
Property and equipment *(Note 7)*:			
Land	**693,207**	691,573	**6,530,447**
Buildings and structures	**1,368,962**	1,324,436	**12,896,486**
Machinery and equipment	**82,979**	83,315	**781,715**
Construction in progress	**31,460**	32,472	**296,373**
Total property and equipment	**2,176,608**	2,131,796	**20,505,021**
Less accumulated depreciation	**(607,305)**	(568,118)	**(5,721,196)**
Net property and equipment	**1,569,303**	1,563,678	**14,783,825**
Intangible and other assets *(Notes 7 and 8)*	**54,850**	55,919	**516,722**
Total assets	**¥ 2,285,771**	¥2,275,902	**$21,533,405**

See accompanying notes to consolidated financial statements.

Liabilities, minority interests and shareholders' equity	Millions of yen 2000	1999	Thousands of U.S. dollars (Note 3) 2000
Current liabilities:			
Short-term borrowings and current portion of long-term debt *(Note 7)*	**¥ 183,626**	¥ 218,386	**$ 1,729,873**
Notes and accounts payable – trade	**57,286**	52,712	**539,670**
Accrued income taxes *(Note 8)*	**3,172**	3,231	**29,882**
Advance and deposits	**51,796**	48,716	**487,951**
Accrued expenses and other current liabilities *(Note 8)*	**49,537**	40,093	**466,670**
Total current liabilities	**345,417**	363,138	**3,254,046**
Long-term debt *(Note 7)*	**1,036,197**	1,057,410	**9,761,630**
Lease deposits	**296,934**	297,808	**2,797,306**
Employees' retirement allowances	**29,356**	30,047	**276,552**
Deferred income taxes *(Note 8)*	**61,699**	8,238	**581,244**
Other noncurrent liabilities	**45,598**	38,220	**429,561**
Total liabilities	**1,815,201**	1,794,861	**17,100,339**
Minority interests	**29,839**	29,338	**281,102**
Shareholders' equity *(Note 9)*:			
Common stock, par value ¥50:			
Authorized – 1,980,000,000 shares;			
Issued and outstanding –1,299,185,054 shares	**86,534**	86,534	**815,205**
Capital surplus	**115,195**	115,195	**1,085,210**
Retained earnings	**254,871**	257,854	**2,401,045**
Foreign currency translation adjustments	**(15,860)**	(7,871)	**(149,411)**
	440,740	451,712	**4,152,049**
Less treasury stock – 9,395 shares in 2000; 7,231 shares in 1999	**(9)**	(9)	**(85)**
Total shareholders' equity	**440,731**	451,703	**4,151,964**
Contingent liabilities *(Note 11)*			
Total liabilities, minority interests and shareholders' equity	**¥2,285,771**	¥2,275,902	**$21,533,405**

Consolidated Statements of Income

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2000	1999	1998	2000
Revenue from operations	**¥574,396**	¥565,259	¥548,731	**$5,411,173**
Cost of revenue from operations	**463,708**	438,171	444,359	**4,368,422**
Selling, general and administrative expenses	**42,487**	58,260	47,441	**400,255**
Operating income	**68,201**	68,828	56,931	**642,496**
Other income (expenses):				
Interest and dividend income	**4,310**	4,713	6,255	**40,603**
Interest expense	**(40,318)**	(44,349)	(45,179)	**(379,821)**
Other, net *(Note 12)*	**4,355**	2,624	23,538	**41,027**
Total	**(31,653)**	(37,012)	(15,386)	**(298,191)**
Income before income taxes and minority interests	**36,548**	31,816	41,545	**344,305**
Income taxes *(Notes 1 and 8)*:				
Current	**8,887**	7,944	8,264	**83,721**
Deferred	**7,531**	—	—	**70,947**
	16,418	7,944	8,264	**154,668**
Minority interests	**1,709**	1,545	1,433	**16,100**
Net income	**¥ 18,421**	¥ 22,327	¥ 31,848	**$ 173,537**

	Yen			U.S. dollars (Note 3)
Amounts per common share:				
Net income	**¥14.18**	¥17.19	¥24.51	**$0.13**
Cash dividends	**8.00**	8.00	8.00	**0.08**
Interest coverage ratio*	**1.80**	1.66	1.43	

See accompanying notes to consolidated financial statements.

**Interest coverage ratio is calculated by dividing the sum of operating income, interest income and dividends by interest expense.*

Consolidated Statements of Changes in Shareholders' Equity

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2000, 1999 and 1998

Millions of yen

	Common Stock	Capital Surplus	Retained Earnings	Foreign Currency Translation Adjustments	Treasury Stock	Total Shareholders' Equity
Balance at March 31, 1997	¥86,534	¥115,195	¥231,069	¥ (5,660)	¥(12)	¥427,126
Net income	—	—	31,848	—	—	31,848
Cash dividends paid	—	—	(10,393)	—	—	(10,393)
Directors' and statutory auditors' bonuses	—	—	(187)	—	—	(187)
Net change in foreign currency translation adjustments	—	—	—	5,298	—	5,298
Decrease in treasury stock	—	—	—	—	3	3
Balance at March 31, 1998	86,534	115,195	252,337	(362)	(9)	453,695
Net income	—	—	22,327	—	—	22,327
Change in consolidated subsidiaries and companies accounted for by the equity method *(Note 1)*	—	—	(6,236)	—	—	(6,236)
Cash dividends paid	—	—	(10,393)	—	—	(10,393)
Directors' and statutory auditors' bonuses	—	—	(181)	—	—	(181)
Net change in foreign currency translation adjustments	—	—	—	(7,509)	—	(7,509)
Balance at March 31, 1999	**86,534**	**115,195**	**257,854**	**(7,871)**	**(9)**	**451,703**
Net income	**—**	**—**	**18,421**	**—**	**—**	**18,421**
Cash dividends paid	**—**	**—**	**(10,393)**	**—**	**—**	**(10,393)**
Directors' and statutory auditors' bonuses	**—**	**—**	**(183)**	**—**	**—**	**(183)**
Cumulative effect of adopting tax-effect accounting *(Note 1)*	**—**	**—**	**(10,830)**	**—**	**—**	**(10,830)**
Net change in foreign currency translation adjustments	**—**	**—**	**—**	**(7,989)**	**—**	**(7,989)**
Other	**—**	**—**	**2**	**—**	**—**	**2**
Balance at March 31, 2000	**¥86,534**	**¥115,195**	**¥254,871**	**¥(15,860)**	**¥ (9)**	**¥440,731**

Thousands of U.S. dollars (Note 3)

	Common Stock	Capital Surplus	Retained Earnings	Foreign Currency Translation Adjustments	Treasury Stock	Total Shareholders' Equity
Balance at March 31, 1999	**$815,205**	**$1,085,210**	**$2,429,147**	**$ (74,150)**	**$(85)**	**$4,255,327**
Net income	**—**	**—**	**173,537**	**—**	**—**	**173,537**
Cash dividends paid	**—**	**—**	**(97,909)**	**—**	**—**	**(97,909)**
Directors' and statutory auditors' bonuses	**—**	**—**	**(1,724)**	**—**	**—**	**(1,724)**
Cumulative effect of adopting tax-effect accounting *(Note 1)*	**—**	**—**	**(102,025)**	**—**	**—**	**(102,025)**
Net change in foreign currency translation adjustments	**—**	**—**	**—**	**(75,261)**	**—**	**(75,261)**
Other	**—**	**—**	**19**	**—**	**—**	**19**
Balance at March 31, 2000	**$815,205**	**$1,085,210**	**$2,401,045**	**$(149,411)**	**$(85)**	**$4,151,964**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2000

	Millions of yen	Thousand of U.S. dollars (Note 3)
	2000	2000
Operating activities		
Income before income taxes and minority interests	¥36,548	$344,305
Depreciation and amortization	64,167	604,494
Net gain on sales of property and equipment	(37,407)	(352,398)
Net gain on sales of marketable securities	(18,012)	(169,684)
Unrealized loss on marketable securities	2,166	20,405
Valuation loss on inventories	32,614	307,244
Equity in net income of affiliates	(1,689)	(15,911)
Net change in allowances	(2,431)	(22,902)
Interest and dividend income	(4,310)	(40,603)
Interest expense	40,318	379,821
Increase in notes and accounts receivable	(8,267)	(77,880)
Decrease in inventories	399	3,759
Increase in notes and accounts payable	12,000	113,048
Other	1,792	16,881
Subtotal	117,888	1,110,579
Interest and dividends received	3,948	37,193
Interest paid	(40,706)	(383,476)
Income taxes paid	(8,729)	(82,233)
Net cash provided by operating activities	72,401	682,063
Investing activities		
Proceeds from sale of marketable securities	24,183	227,820
Purchases of marketable securities	(2,938)	(27,678)
Proceeds from sales of property and equipment	68,866	648,762
Purchases of property and equipment	(102,160)	(962,412)
Proceeds from sales of investment securities	1,950	18,371
Purchases of investment securities	(1,529)	(14,405)
Purchases of land use rights	(2,581)	(24,315)
Other	2,598	24,475
Net cash used in investing activities	(11,611)	(109,382)
Financing activities		
Increase in short-term borrowings	136,572	1,286,595
Repayment of short-term borrowings	(131,282)	(1,236,760)
Net decrease in commercial paper	(17,000)	(160,151)
Increase in long-term borrowings	77,508	730,175
Repayment of long-term borrowings	(120,770)	(1,137,730)
Proceeds from issuance of corporate bonds	62,929	592,831
Repayment of corporate bonds	(55,619)	(523,967)
Cash dividends paid	(10,393)	(97,909)
Other	724	6,821
Net cash used in financing activities	(57,331)	(540,095)
Effect of exchange rate changes on cash and cash equivalents	(3,744)	(35,271)
Net decrease in cash and cash equivalents	(285)	(2,685)
Cash and cash equivalents at beginning of year	86,695	816,722
Increase in cash and cash equivalents due to merger and acquisition	47	443
Cash and cash equivalents at end of year *(Note 13)*	¥86,457	$814,480

See accompanying notes to consolidated financial statements.

Years ended March 31, 1999 and 1998

	Millions of yen	
	1999	1998
Operating activities		
Net income	¥22,327	¥31,848
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sales of property and equipment	—	(49,159)
Gain on sales of affiliated companies' stock	—	(7,715)
Loss on write-downs of property and equipment	—	33,789
Depreciation and amortization	63,050	53,932
Provision for reserve for retirement benefits	(627)	646
Other	8,364	(4,783)
Changes in assets and liabilities:		
Increase in notes and accounts receivable	(11,505)	(1,392)
Decrease in inventories	4,163	33,462
Increase in other current assets	(233)	(198)
Increase in notes and accounts payable	5,509	3,423
(Decrease) increase in accrued income taxes	(2,683)	3,391
Other	2,881	(18,476)
Payment of directors' bonuses	(181)	(187)
Net cash provided by operating activities	91,065	78,581
Investing activities		
Purchases of property and equipment	(148,324)	(148,023)
Proceeds from sales of property and equipment	629	51,360
Proceeds from sales of affiliated companies' stock	—	8,477
Decrease (increase) in marketable securities	4,642	(1,253)
Increase (decrease) in lease deposits	4,811	(7,209)
Decrease in loans to unconsolidated subsidiaries and affiliates	1,448	10,851
Other	1,346	(3,261)
Net cash used in investing activities	(135,448)	(89,058)
Financing activities		
Increase in bonds and notes	41,669	75,072
Increase (decrease) in long-term borrowings	19,153	(34,549)
Decrease in commercial paper	(15,701)	(21,360)
(Decrease) increase in short-term borrowings	(3,539)	21,174
Cash dividends paid	(10,393)	(10,393)
Net cash provided by financing activities	31,189	29,944
Net (decrease) increase in cash	(13,194)	19,467
Increase in cash due to change in scope of consolidation	6,422	—
Cash at beginning of year	77,297	57,830
Cash at end of year	¥70,525	¥77,297

Notes to Consolidated Financial Statements

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
March 31, 2000

1. Significant Accounting Policies

Basis of preparation of financial statements

Mitsubishi Estate Co., Ltd. (" the Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted and applied in Japan, while its foreign subsidiaries do so in accordance with those of the countries of their domicile. The accompanying consolidated financial statements have been compiled from the consolidated financial statements filed with the Minister of Finance as required by the Securities and Exchange Law of Japan and have been prepared in accordance with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan. For the purpose of this document, certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

In addition, the notes to the consolidated financial statements include information which might not be required under accounting principles generally accepted in Japan but is presented herein as additional information.

Principles of consolidation

Until the year ended March 31, 1998, the consolidated financial statements included the accounts of the Company and its significant subsidiaries (owned more than 50%), and investments in certain unconsolidated subsidiaries and significant affiliates (owned 20% to 50%) were accounted for by the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

Effective April 1, 1998, the Company has initially adopted the new accounting standards for consolidation in Japan, under which consolidated financial statements include the accounts of the Company and its significant companies controlled directly or indirectly by the Company, and companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. As a result, retained earnings as of April 1, 1998, decreased by ¥6,236 million. The prior years' financial statements have not been restated.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions which affect the amounts reported in the financial statements and accompanying notes. The actual results could differ from those estimates.

Foreign currency translation

The balance sheet accounts of the foreign consolidated subsidiaries and affiliates are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of shareholders' equity which are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rate of exchange in effect during the year. The resulting foreign currency translation adjustments are accumulated. These were formerly presented separately in the consolidated balance sheets as a component of assets or liabilities. As a result of a recent change in the regulations governing the presentation of translation adjustments, the Company has initially presented foreign currency translation adjustments as a component of shareholder's equity as of March 31, 2000, in the accompanying consolidated financial statements, and has restated the previously reported 1999 and 1998, consolidated financial statements to conform them to the current year's presentation.

Foreign currency liabilities hedged by currency swap contracts are stated at the swapped amounts. Other assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the respective balance sheet dates, and the resulting transaction gains or losses are included in determining net income.

Cash flow statements and cash equivalents

In March 1998, the Business Accounting Deliberation Council of Japan issued a new accounting standard for statements of cash flows, which became effective the year ended March 31, 2000. Prior to the issuance of this standard, there existed no accounting standard for the preparation of statements of cash flows in Japan and, accordingly, the Company had prepared its statements of cash flows in a format similar to that required under accounting standards generally accepted in the United States.

The Company adopted the new accounting standard effective the year ended March 31, 2000, and the accompanying consolidated statement of cash flows for the year ended March 31, 2000, has been prepared in accordance with this standard. However, the consolidated statements of cash flows for the years ended March 31, 1999 and 1998, have not been restated.

As a result of the adoption of this new accounting standard, the Company changed its definition of cash equivalents and now considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Thus, time deposits with a maturity of more than three months have been excluded and marketable securities with a maturity of three months or less have been included in cash and cash equivalents. A reconciliation between cash in the balance sheet and cash equivalents at April 1, 1999, and March 31, 2000, is presented in Note 13.

Marketable securities and investments in other securities

Marketable securities in current and noncurrent portfolios are valued principally at the lower of cost or market, cost being determined by the moving average method, and other securities are stated at cost determined by the moving average method.

Inventories
Inventories are mainly stated at cost, determined by the identified cost method, however, when the fair value is substantially less than cost and the decline in fair value is considered to be permanent, inventories are revalued at fair value.

Property and equipment and depreciation
Domestic property and equipment is stated at cost, less accumulated depreciation. Foreign subsidiaries primarily in the United States have adopted Financial Accounting Standards Board Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," which requires impaired losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount.

Depreciation of property and equipment is calculated principally by the declining-balance method, except for buildings acquired in Japan subsequent to March 31, 1998, and property and equipment of foreign subsidiaries on which depreciation is calculated by the straight-line method, at rates determined based on the estimated useful lives of the respective assets. The Company has capitalized the costs incurred for significant renewals and additions, however, costs for maintenance and repair are charged to income.

Leases
Noncancelable leases are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

Intangible and other assets
Intangible and other assets primarily consists of goodwill and land use rights. Goodwill is stated on the basis of cost and is being amortized over periods ranging from 5 to 25 years on a straight-line basis. Land use rights are stated on the basis of cost.

Retirement benefits
The Company and most consolidated subsidiaries have noncontributory funded and unfunded defined benefit plans covering most of their employees. Employees of the Company and its consolidated subsidiaries are entitled under most employment termination circumstances to annuity payments or lump-sum payments, the amounts of which are determined principally by reference to their basic rates of pay, length of service, and the conditions under which the termination occurs.

Employees' retirement allowances are stated at the amount which would be required to be paid if all eligible employees covered by the unfunded benefit plan voluntarily terminated their employment as of the balance sheet date.

Costs with respect to the funded pension plans are determined actuarially and charged to income when paid.

In addition, directors and statutory auditors are customarily entitled to lump-sum payments under the Company's internal regulations. Accrued severance benefits for these officers of the Company have been provided at estimated amounts and included in other noncurrent liabilities.

Income taxes
In accordance with a new accounting standard for income taxes adopted on April 1, 1999, deferred tax assets and liabilities have been initially recognized in the consolidated financial statements for the year ended March 31, 2000, with respect to the differences between financial reporting and the tax bases of the assets and liabilities, and have been measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

The effect of this change in method of accounting was to increase total assets by ¥35,625 million ($335,610 thousand), total liabilities by ¥61,743 million ($581,658 thousand), and to decrease retained earnings by ¥18,361 million ($172,972 thousand) at March 31, 2000, and to decrease net income by ¥7,531 million ($70,947 thousand) for the year ended March 31, 2000. The cumulative effect of this change as of April 1, 1999, amounted to ¥10,830 million ($102,025 thousand) and has been presented as a reduction of retained earnings at the beginning of the year.

Revenue recognition
The statements of income reflect revenue from operations in the following manner:

(a) Revenue from the leasing of office space is recognized as rent accrued in the leasing period.
(b) Revenue from sales of condominiums, residential houses and land is recognized when the units are delivered and accepted by the customers.
(c) Revenue from real estate brokerage is recognized when an underlying lease agreement is in force or the underlying units are delivered.
(d) Revenue from architectural design and supervision is recognized at the date of completion of each relevant project.
(e) Revenue from construction contracts is recognized at the date of completion of each contract.
(f) Other operating revenue is recognized on an accrual basis.

Net income per share
In computing net income per share assuming no dilution, the average number of shares outstanding during each year, adjusted to give retroactive effect to the free distribution of shares, has been used. Net income per share assuming full dilution has been computed on the assumption that all convertible bonds were converted into common stock at the beginning of the year, or at the time of issue in the case of newly issued bonds, with appropriate adjustments of the related interest expense, net of taxes, for such convertible bonds. Diluted net income per share for the years ended March 31, 2000, 1999 and 1998, has not been presented since conversion of the outstanding convertible bonds would have had no dilutive effect.

Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial year is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial year. The accounts for that year do not, therefore, reflect such appropriations.

Reclassifications

Certain reclassifications have been made to the 1999 and 1998 financial statements in order to conform them to the 2000 presentation.

2. Accounting Changes

(1) Effective April 1, 1999, the Company changed its method of accounting for prior service cost regarding its funded pension plans from expensing these upon payment, to recognizing such costs as expense when actuarially determined. This change was made in order to establish a solid financial position for the Company, considering the amount of the unfunded prior service cost of the pension plan. The cumulative effect of this change in method of accounting amounted to ¥8,664 million ($81,620 thousand) at April 1, 1999, and was charged to income for the year ended March 31, 2000, resulting in an increase in operating income of ¥1,765 million ($16,627 thousand) and a decrease in income before income taxes of ¥6,899 million ($64,993 thousand).

(2) Effective April 1, 1999, the Company changed its classification of certain expenses related to its hotel business in the statement of income and began including these expenses in cost of revenue from operations instead of in selling, general and administrative expenses. This change was made to achieve a more accurate presentation of the operating results of the Company and its consolidated subsidiaries as these expenses are directly related to the revenue from the hotel business operations. The effect of this change was to increase cost of revenue from operations and to decrease selling, general and administrative expenses by ¥13,503 million ($127,207 thousand). This change, however, had no effect on income before income taxes for the year ended March 31, 2000. The prior years' statements of income have not been restated.

3. U.S. Dollar Amounts

Translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥106.15 = U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2000. The inclusion of such amounts is not intended to imply that yen amounts have been or could be readily converted, realized or settled in U.S. dollars at the above or any other rate.

4. Inventories

Inventories at March 31, 2000 and 1999, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Real estate for sale	**¥152,741**	¥170,452	**$1,438,917**
Land and housing projects in progress	**38,274**	40,821	**360,565**
Land held for development	**31,638**	35,219	**298,050**
Other	**12,644**	13,246	**119,114**
Total	**¥235,297**	¥259,738	**$2,216,646**

5. Marketable Securities and Investments in Other Securities

Marketable securities and investments in other securities at March 31, 2000 and 1999, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Marketable securities:			
Listed equity securities	**¥69,694**	¥73,201	**$656,561**
Public bonds, corporate debentures and other	**17,891**	24,034	**168,545**
Total	**¥87,585**	¥97,235	**$825,106**
Investment in other securities:			
Unlisted equity securities	**¥ 9,444**	¥10,351	**$ 88,968**
Public bonds, corporate debentures and other	**171**	112	**1,611**
Total	**¥ 9,615**	¥10,463	**$ 90,579**

6. Other Investments

Other investments at March 31, 2000 and 1999, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Lease deposits	**¥ 75,382**	¥ 76,341	**$ 710,146**
Long-term prepaid expenses and other	**49,938**	51,166	**470,447**
Total	**¥125,320**	¥127,507	**$1,180,593**

7. Short-Term Borrowings and Long-Term Debt

At March 31, 2000 and 1999, short-term borrowings and current portion of long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Loans, principally from banks	**¥ 68,151**	¥ 73,621	**$ 642,026**
Commercial paper	**1,536**	18,736	**14,470**
Current portion of long-term debt	**113,939**	126,029	**1,073,377**
Total	**¥183,626**	¥218,386	**$1,729,873**

The annual interest rates applicable to short-term borrowings outstanding at March 31, 2000 and 1999, ranged principally from 0.382% to 6.675% and from 0.444% to 6.340%, respectively.

At March 31, 2000 and 1999, long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
1.5% convertible bonds due 2003	**¥92,682**	¥92,682	**$873,123**
5.6% mortgage bonds due 1999	**—**	3,000	**—**
4.9% mortgage bonds due 2000	**35,000**	35,000	**329,722**
5.6% mortgage bonds due 2004	**50,000**	50,000	**471,032**
5.275% mortgage bonds due 2005	**50,000**	50,000	**471,032**
4.8% mortgage bonds due 2005	**50,000**	50,000	**471,032**
3.95% unsecured bonds due 1999	**—**	10,000	**—**
6% unsecured bonds due 1999	**—**	30,000	**—**
0.85% unsecured bonds due 1999	**—**	1,897	**—**
0.84% unsecured bonds due 1999	**—**	4,316	**—**
0.8% unsecured bonds due 1999	**—**	897	**—**
1.2% unsecured bonds due 2000	**—**	3,006	**—**
3.85% unsecured bonds due 2000	**35,000**	35,000	**329,722**
1.1% unsecured bonds due 2001	**—**	2,694	**—**
8.625% unsecured bonds due 2001	**28,000**	28,000	**263,778**
4.4% unsecured bonds due 2001	**10,000**	10,000	**94,206**
2.7% unsecured bonds due 2001	**5,000**	5,000	**47,104**
2.125% unsecured bonds due 2002	**10,000**	10,000	**94,206**
1.5% unsecured bonds due 2002	**10,000**	10,000	**94,206**
2.95% unsecured bonds due 2002	**10,000**	10,000	**94,206**
4% unsecured bonds due 2002	**20,000**	20,000	**188,414**
1.675% unsecured bonds due 2002	**10,000**	10,000	**94,206**
2.55% unsecured bonds due 2003	**10,000**	10,000	**94,206**
2.35% unsecured bonds due 2003	**20,000**	20,000	**188,414**
2.05% unsecured bonds due 2003	**20,000**	20,000	**188,414**
1.775% unsecured bonds due 2003	**10,000**	10,000	**94,206**
1.7% unsecured bonds due 2003	**10,000**	10,000	**94,206**
3.1% unsecured bonds due 2003	**10,000**	10,000	**94,206**
3.05% unsecured bonds due 2003	**15,000**	15,000	**141,307**
2.55% unsecured bonds due 2004	**10,000**	10,000	**94,206**
1.7% unsecured bonds due 2004	**10,000**	10,000	**94,206**
0.9% unsecured bonds due 2004	**10,000**	—	**94,206**
2.125% unsecured bonds due 2005	**10,000**	10,000	**94,206**
3.4% unsecured bonds due 2006	**10,000**	10,000	**94,206**
3% unsecured bonds due 2006	**10,000**	10,000	**94,206**
2.21% unsecured bonds due 2006	**10,000**	10,000	**94,206**
1.325% unsecured bonds due 2006	**10,000**	—	**94,206**

	Millions of yen 2000	Millions of yen 1999	Thousands of U.S. dollars 2000
2.975% unsecured bonds due 2007	**¥ 30,000**	¥ 30,000	**$ 282,619**
3.1% unsecured bonds due 2008	**10,000**	10,000	**94,206**
2.575% unsecured bonds due 2008	**10,000**	10,000	**94,206**
2.525% unsecured bonds due 2008	**10,000**	10,000	**94,206**
3.075% unsecured bonds due 2009	**10,000**	10,000	**94,206**
1.82% unsecured bonds due 2009	**10,000**	—	**94,206**
2% unsecured bonds due 2009	**10,000**	—	**94,206**
1.985% unsecured bonds due 2009	**10,000**	—	**94,206**
3.275% unsecured bonds due 2012	**10,000**	10,000	**94,206**
3.125% unsecured bonds due 2017	**10,000**	10,000	**94,206**
3% unsecured bonds due 2018	**10,000**	10,000	**94,206**
7.37% unsecured bonds due 2008 (payable in U.S. dollars)	**4,970**	—	**46,821**
6.2% unsecured bonds due 2001 (payable in U.S. dollars)	**6,660**	7,525	**62,742**
6.95% unsecured bonds due 2003 (payable in U.S. dollars)	**1,024**	1,157	**9,647**
0.86% unsecured bonds due 2000 (payable in U.S. dollars)	**882**	—	**8,309**
0.4% unsecured bonds due 2000 (payable in U.S. dollars)	**2,590**	—	**24,400**
0.3% unsecured bonds due 2000 (payable in U.S. dollars)	**1,718**	—	**16,185**
0.2% unsecured bonds due 2000 (payable in U.S. dollars)	**1,751**	—	**16,496**
0.2% unsecured bonds due 2001 (payable in U.S. dollars)	**3,922**	—	**36,948**
Floating rate bonds due 2001 (payable in U.S. dollars)	**2,232**	2,522	**21,027**
Floating rate bonds due 2009 (payable in U.S. dollars)	**970**	—	**9,138**
Loans from banks and insurance companies:			
Secured	**98,504**	112,728	**927,970**
Unsecured	**304,164**	332,916	**2,865,417**
Loans from tenants	**67**	99	**632**
Total	**1,150,136**	1,183,439	**10,835,007**
Less current portion	**(113,939)**	(126,029)	**(1,073,377)**
Total long-term debt	**¥1,036,197**	¥1,057,410	**$9,761,630**

The agreement under which the 1.5% convertible bonds due 2003 were issued provides for conversion into shares of common stock at the current conversion price per share of ¥2,600 ($24.49) subject to adjustments for certain events including free distributions of shares and stock dividends declared as a result of stock splits.

The aggregate annual maturities of long-term debt subsequent to March 31, 2000, are summarized as follows:

Year ending March 31:	Millions of yen	Thousands of U.S. dollars
2001	¥ 113,939	$ 1,073,377
2002	154,242	1,453,057
2003	201,733	1,900,452
2004	145,394	1,369,703
2005 and thereafter	534,828	5,038,418
Total	¥1,150,136	$10,835,007

The assets pledged as collateral for short-term borrowings of ¥10,570 million ($99,576 thousand), long-term debt of ¥98,504 million ($927,970 thousand) and other noncurrent liabilities of ¥6,000 million ($56,524 thousand) at March 31, 2000, were as follows:

	Millions of yen	Thousands of U.S. dollars
Cash and cash equivalents	¥ 20	$ 189
Other investments	378	3,561
Land	22,110	208,290
Buildings	145,898	1,374,451
Machinery and equipment	6,755	63,636
Other assets	11	104
Total	¥175,172	$1,650,231

Additionally, all assets of the Company are subject to the terms of an enterprise mortgage for mortgage bonds which amounted to ¥185 billion ($1,743 million) at March 31, 2000.

As is customary in Japan, collateral must be given if requested by lending institutions under certain circumstances, and banks, in general, have the right to offset cash deposited with them against any debt or obligations payable to the bank which become due in cases of default or certain other specified events. The Company has never received any such requests nor does it expect that any such requests will be made.

8. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which in the aggregate, resulted in statutory rates of approximately 42% for 2000, 48% for 1999 and 51% for 1998. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation. The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 1999 and 1998, differ from the statutory rates primarily because of the effect of timing differences in the recognition of certain income and expenses for tax and financial reporting purposes and the effects of permanently nondeductible expenses.

The effective tax rate reflected in the consolidated statement of income for the year ended March 31, 2000, differs from the statutory tax rate for the following reasons:

	2000
Statutory tax rate	42.05%
Increase (decrease) in income taxes resulting from:	
Recognition of valuation allowance	1.32
Higher tax rates applied to foreign subsidiaries	1.78
Other	(0.23)
Effective tax rate	44.92%

The significant components of deferred tax assets and liabilities as of March 31, 2000, were as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:		
Net operating loss carryforwards	¥ 50,975	$ 480,217
Accrued retirement allowances and pension costs	11,605	109,326
Valuation loss on inventories	13,714	129,194
Unrealized loss on properties and equipment	9,823	92,539
Other	8,213	77,372
	94,330	888,648
Valuation allowance	(28,293)	(266,538)
Total deferred tax assets	66,037	622,110
Deferred tax liabilities:		
Reserves under Special Taxation Measures Law	(51,419)	(484,399)
Unrealized gain on properties and equipment	(35,249)	(332,068)
Other	(5,487)	(51,691)
Total deferred tax liabilities	(92,155)	(868,158)
Net deferred tax liabilities	¥(26,118)	$(246,048)

9. Legal Reserve and Capital Surplus

In accordance with the Commercial Code of Japan, the Company has provided a legal reserve as an appropriation of retained earnings. The Code provides that neither capital surplus nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. Retained earnings in the accompanying financial statements include the legal reserve of ¥21,633 million ($203,797 thousand) as of both March 31, 2000 and 1999.

10. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2000 and 1999, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
March 31, 2000						
Buildings and structures	**¥1,360**	**¥ 887**	**¥ 473**	**$12,812**	**$ 8,356**	**$ 4,456**
Machinery and equipment	**7,504**	**4,211**	**3,293**	**70,692**	**39,670**	**31,022**
Total	**¥8,864**	**¥5,098**	**¥3,766**	**$83,504**	**$48,026**	**$35,478**
March 31, 1999						
Buildings and structures	¥ 1,345	¥ 824	¥ 521	$12,671	$ 7,763	$ 4,908
Machinery and equipment	8,895	5,414	3,481	83,796	51,003	32,793
Total	¥10,240	¥6,238	¥4,002	$96,467	$58,766	$37,701

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥1,750 million ($16,486 thousand), ¥1,786 million and ¥1,687 million for the years ended March 31, 2000, 1999 and 1998, respectively. If finance lease accounting had been adopted, depreciation of the leased assets over the respective lease terms would have amounted to ¥1,750 million ($16,486 thousand), ¥1,786 million and ¥1,687 million for the years ended March 31, 2000, 1999 and 1998, respectively.

Future minimum lease payments subsequent to March 31, 2000, on noncancelable operating leases and finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	Finance leases	Operating leases	Finance leases	Operating leases
Year ending March 31:				
2001	¥1,617	¥ 2,314	$15,233	$ 21,800
2002 and thereafter	2,149	15,703	20,245	147,932
Total	¥3,766	¥18,017	$35,478	$169,732

The Company and its consolidated subsidiaries lease office buildings and commercial properties and earn lease income. Future minimum lease income subsequent to March 31, 2000, for noncancelable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31:		
2001	¥ 21,450	$ 202,073
2002 and thereafter	261,769	2,466,029
Total	¥283,219	$2,668,102

11. Contingent Liabilities

At March 31, 2000, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees of affiliates' loans from banks	¥ 480	$ 4,522
Guarantees of employees' housing loans from banks and others	1,702	16,034
Other	944	8,893
Total	¥3,126	$29,449

In addition to the above, at March 31, 2000, the Company was committed to provide guarantees of the following bonds which were transferred to banks under debt assumption agreements:

	Millions of yen	Thousands of U.S. dollars	Date of agreement
7.05% unsecured bonds due 2001	¥30,000	$282,619	Sept. 20, 1994
6.0% unsecured bonds due 2002	50,000	471,032	Feb. 28, 1997
6.0% unsecured bonds due 2001	20,000	188,413	Feb. 28, 1997

12. Other Income (Expenses)

The components of "Other, net" in "Other income (expenses)" for each of the three years in the period ended March 31, 2000, were as follows:

	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	**2000**
Equity in net income of unconsolidated subsidiaries and affiliates	**¥ 1,689**	¥ 512	¥ —	**$ 15,911**
Net realized gain on sales of property and equipment	**37,407**	—	49,159	**352,398**
Valuation loss on inventories	**(32,614)**	—	—	**(307,244)**
Valuation loss on property and equipment	**—**	—	(33,789)	**—**
Net realized gain on sales of marketable securities	**18,012**	2,870	14,664	**169,684**
Unrealized loss on marketable securities	**(2,166)**	—	—	**(20,405)**
Loss on investment in affiliates	**(7,015)**	—	—	**(66,085)**
Amortization of prior service cost of pension plan	**(8,664)**	—	—	**(81,620)**
Other	**(2,294)**	(758)	(6,496)	**(21,612)**
Total	**¥ 4,355**	¥2,624	¥ 23,538	**$ 41,027**

13. Supplemental Cash Flow Information

The following table represents a reconciliation of cash and cash equivalents as of April 1, 1999, and March 31, 2000:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2000	April 1,1999	**March 31, 2000**
Cash	**¥74,582**	¥70,525	**$702,609**
Time deposits with a maturity of more than three months	**(887)**	(1,711)	**(8,356)**
Marketable securities with a maturity of three months or less	**12,762**	17,881	**120,227**
Cash and cash equivalents	**¥86,457**	¥86,695	**$814,480**

14. Fair Value of Marketable Securities

The carrying amount and related fair value of current and noncurrent marketable securities at March 31, 2000, were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Carrying amount	Estimated fair value	Net unrealized gain	Carrying amount	Estimated fair value	Net unrealized gain
Current:						
Equity securities	¥69,694	¥255,277	¥185,582	$656,561	$2,404,870	$1,748,300
Bonds	3,200	3,293	93	30,146	31,022	876
	72,894	258,570	185,675	686,707	2,435,892	$1,749,176
Noncurrent:						
Bonds	67	70	3	632	660	28
Total	¥72,961	¥258,640	¥185,678	$687,339	$2,436,552	$1,749,204

15. Derivative Transactions

The Company utilizes derivative financial instruments for the purpose of hedging its exposure to adverse fluctuations in foreign currency exchange rates and interest rates, but does not enter into such transactions for speculation or trading purposes.

The Company is exposed to credit loss in the event of nonperformance by the counterparties to the derivative financial instruments, but any such loss would not be material because the Company enters into transactions only with financial institutions with high credit ratings. The notional amounts of the derivative financial instruments do not necessarily represent the amounts exchanged by the parties and, therefore, are not a direct measure of the Company's risk exposure in connection with derivative financial instruments.

Summarized below are the notional amounts and the estimated fair value of the interest-related derivative transactions outstanding at March 31, 2000:

	Millions of yen			Thousands of U.S. dollars		
	Notional amount	Fair value	Unrealized gain(loss)	Notional amount	Fair value	Unrealized gain(loss)
Interest rate swaps:						
Receive/floating and pay/fixed	¥11,101	¥ 73	¥ 73	$104,579	$ 688	$ 688
Receive/fixed and pay/floating	11,024	(41)	(41)	103,853	(386)	(386)
Receive/floating and pay/floating	5,000	(31)	(31)	47,103	(292)	(292)
Total	¥27,125	¥ 1	¥ 1	$255,535	$ 10	$ 10

16. Segment Information

Business segment

The Company and its consolidated subsidiaries are primarily engaged in the real estate business mainly in Japan and the United States in six segments: (1) leasing and management of office buildings and commercial properties; (2) sales of condominiums, residential houses and land; (3) real estate brokerage; (4) architectural design and supervision; (5) construction; and (6) other business.

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2000 and 1999, is summarized as follows:

Millions of yen

2000	Leasing and management	Sales	Brokerage	Architectural	Construction	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income									
Revenue from:									
External customers	¥ 287,520	¥ 90,314	¥75,067	¥15,632	¥52,498	¥ 53,364	¥ 574,396	¥ —	¥ 574,396
Intersegment or transfers	6,391	412	2,891	2,048	3,353	4,212	19,307	(19,307)	—
Total revenue	293,911	90,726	77,958	17,680	55,851	57,576	593,703	(19,307)	574,396
Operating expense	211,183	92,397	72,838	16,245	54,280	59,890	506,834	(640)	506,195
Operating income (loss)	¥ 82,728	¥ (1,671)	¥ 5,120	¥ 1,435	¥ 1,571	¥ (2,314)	¥ 86,869	¥ (18,667)	¥ 68,201
Total assets, depreciation, and capital expenditures									
Assets	¥1,689,439	¥239,333	¥58,074	¥12,137	¥26,317	¥103,532	¥2,128,834	¥156,936	¥2,285,771
Depreciation	56,661	305	1,123	6	126	4,057	62,279	423	62,703
Capital expenditures	105,316	518	2,250	80	244	1,957	110,368	1,044	111,412

Thousands of U.S. dollars

2000	Leasing and management	Sales	Brokerage	Architectural	Construction	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income									
Revenue from:									
External customers	$ 2,708,620	$ 850,814	$707,179	$147,263	$494,564	$502,723	$ 5,411,173	$ —	$5,411,173
Intersegment or transfers	60,207	3,881	27,235	19,294	31,588	39,670	181,884	(181,884)	—
Total revenue	2,768,827	854,695	734,414	166,557	526,152	542,393	5,593,057	(181,884)	5,411,173
Operating expense	1,989,477	870,437	686,180	153,039	511,352	564,182	4,774,696	(6,029)	4,768,677
Operating income (loss)	$ 779,350	$ (15,742)	$ 48,234	$ 13,518	$ 14,800	$ (21,799)	$ 818,361	$ (175,855)	$ 642,496
Total assets, depreciation, and capital expenditures									
Assets	$15,915,582	$2,254,668	$547,094	$114,338	$247,923	$975,337	$20,054,960	$1,478,436	$21,533,405
Depreciation	533,782	2,873	10,579	57	1,187	38,220	586,707	3,985	590,702
Capital expenditures	992,143	4,880	21,196	754	2,299	18,436	1,039,736	9,835	1,049,571

								Millions of yen
								1999
	Leasing and management	Sales	Architectural	Construction	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income								
Revenue from:								
External customers	¥ 296,480	¥155,408	¥11,822	¥ 47,467	¥54,082	¥ 565,259	¥ —	¥ 565,259
Intersegment or transfers	6,594	590	629	1,213	3,043	12,069	(12,069)	—
Total revenue	303,074	155,998	12,451	48,680	57,125	577,328	(12,069)	565,259
Operating expense	215,233	151,532	12,055	49,338	61,921	490,081	6,350	496,431
Operating income (loss)	¥ 87,841	¥ 4,466	¥ 396	¥ (658)	¥ (4,796)	¥ 87,247	¥ (18,419)	¥ 68,828
Total assets, depreciation, and capital expenditures								
Assets	¥1,662,684	¥309,239	¥13,035	¥20,943	¥91,491	¥2,097,392	¥ 178,510	¥2,275,902
Depreciation	52,447	1,447	6	328	3,745	57,976	420	58,397
Capital expenditures	145,115	3,220	10	131	1,363	149,842	484	150,326

Geographical segments

The Company and its consolidated subsidiaries operate primarily in Japan, the United States and certain other areas. The geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2000 and 1999, is summarized as follows:

						Millions of yen
						2000
	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income						
Revenue from:						
External customers	**¥ 466,192**	**¥ 92,889**	**¥15,314**	**¥ 574,396**	**¥ —**	**¥ 574,396**
Intersegment or transfers	**961**	**260**	**210**	**1,430**	**(1,430)**	**—**
Total revenue	**467,153**	**93,149**	**15,524**	**575,826**	**(1,430)**	**574,396**
Operating expenses	**395,023**	**79,846**	**14,225**	**489,093**	**17,102**	**506,195**
Operating income	**¥ 72,130**	**¥ 13,303**	**¥ 1,299**	**¥ 86,733**	**¥ (18,532)**	**¥ 68,201**
Total assets	**¥1,870,283**	**¥218,721**	**¥17,957**	**¥2,106,962**	**¥178,808**	**¥2,285,771**

						Thousands of U.S. dollars
						2000
	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income						
Revenue from:						
External customers	**$ 4,391,823**	**$ 875,073**	**$144,268**	**$ 5,411,173**	**$ —**	**$ 5,411,173**
Intersegment or transfers	**9,053**	**2,449**	**1,978**	**13,471**	**(13,471)**	**—**
Total revenue	**4,400,876**	**875,522**	**146,246**	**5,424,644**	**(13,471)**	**5,411,173**
Operating expenses	**3,721,366**	**752,200**	**134,009**	**4,607,564**	**161,113**	**4,768,677**
Operating income	**$ 679,510**	**$ 125,322**	**$ 12,237**	**$ 817,080**	**$ (174,584)**	**$ 642,496**
Total assets	**$17,619,246**	**$2,060,490**	**$169,166**	**$19,848,912**	**$1,684,484**	**$21,533,405**

	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
						Millions of yen
						1999
Revenue and operating income						
Revenue from:						
External customers	¥ 463,207	¥ 96,639	¥ 5,411	¥ 565,259	¥ —	¥ 565,259
Intersegment or transfers	21	242	22	284	(284)	—
Total revenue	463,228	96,881	5,433	565,543	(284)	565,259
Operating expenses	391,400	82,704	5,441	479,546	16,885	496,431
Operating income	¥ 71,828	¥ 14,177	¥ (8)	¥ 85,997	¥ (17,169)	¥ 68,828
Total assets	¥1,838,826	¥223,955	¥18,124	¥2,080,906	¥194,996	¥2,275,902

Notes to segment information:

(1) Business segments are divided into business categories by the same criteria applied for internal control purposes. In 2000, the Company divided the segment of "Sales" into two separate segments, "Sales" and "Brokerage," principally in order to reflect the expansion of the "Brokerage" business.

(2) As discussed in Note 2, effective April 1, 1999, the Company changed its method of accounting for prior service cost under its pension plan. The effect of this change in method of accounting was to increase "Eliminations or corporate" and decrease operating income by ¥1,764 million ($16,618 thousand) for the year ended March 31, 2000.

(3) Unallocatable operating expenses included under "Eliminations or corporate" for the years ended March 31, 2000 and 1999, amounted to ¥18,025 million ($169,807 thousand) and ¥18,666 million, respectively, and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "Eliminations or corporate" for the years ended March 31, 2000 and 1999, amounted to ¥193,692 million ($1,824,701 thousand) and ¥202,915 million, respectively, and consisted principally of cash, marketable securities, investments in other securities and deferred income taxes of the Company.

(4) As discussed in Note 1, the Company adopted tax-effect accounting for the first time for the year ended March 31, 2000. The effect of this adoption was to increase total assets by ¥464 million ($4,371 thousand) under "Leasing and management," by ¥24 million ($226 thousand) under "Sales," by ¥157 million ($1,479 thousand) under "Architectural," by ¥158 million ($1,488 thousand) under "Other," and by ¥34,820 million ($328,026 thousand) under "Eliminations or corporate" for the business segment information. For the geographical segment information, the effect of this adoption was to increase total assets by ¥805 million ($7,584 thousand) under "Japan" and by ¥34,820 million ($328,026 thousand) under "Elimination or corporate."

Overseas revenue

The following table represents overseas revenue earned by the Company's consolidated subsidiaries in foreign countries during the years ended March 31, 2000 and 1999.

	United States	Other areas	Total
			Millions of yen
			2000
Overseas revenue			
Overseas revenue	**¥98,963**	**¥15,343**	**¥114,306**
Consolidated revenue			**¥574,396**
% of consolidated revenue	**17.2%**	**2.7%**	**19.9%**
			Thousands of U.S. dollars
Overseas revenue			
Overseas revenue	**$932,294**	**$144,541**	**$1,076,835**
Consolidated revenue			**$5,411,173**
% of consolidated revenue	**17.2%**	**2.7%**	**19.9%**

	United States	Other areas	Total
			Millions of yen
			1999
Overseas revenue			
Overseas revenue	¥96,178	¥5,860	¥102,038
Consolidated revenue			¥565,259
% of consolidated revenue	17.0%	1.1%	18.1%

17. Subsequent Events

The Company issued a ¥10,000 million ($94.2 million) 2.5% unsecured corporate bond which is due in 2020 and a ¥10,000 million ($94.2 million) 1.9% unsecured corporate bond which is due in 2010 on May 15, 2000, and June 14, 2000, respectively. The Company intends to use the proceeds from the issuance of these corporate bonds for repayment of borrowings and the redemption of other corporate bonds, which fall due in the year ending March 31, 2001.

Report of Independent Public Accountants
on the Consolidated Financial Statements

To The Board of Directors and Shareholders of
Mitsubishi Estate Co., Ltd.

We have audited the consolidated balance sheets of Mitsubishi Estate Co., Ltd. and consolidated subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2000, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Mitsubishi Estate Co., Ltd. and consolidated subsidiaries at March 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2000, in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period except for the changes, with which we concur, in the method of accounting for prior service cost of the pension plan and in the classification of certain expenses related to the hotel business in the statement of income as described in Note 2 to the consolidated financial statements, and in the grouping of business segments separately presenting brokerage segment from sales segment as described in Notes to segment information in Note 16 to the consolidated financial statements.

As described in Note 1 to the consolidated financial statements, Mitsubishi Estate Co., Ltd. adopted new accounting standards for tax-effect accounting in the preparation of its consolidated financial statements for the year ended March 31, 2000.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2000, are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Century Ota Showa & Co.

Century Ota Showa & Co.

Tokyo, Japan
June 29, 2000

See Note 1 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of Mitsubishi Estate Co., Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.

Mitsubishi Estate Corporate Data

Directors and Statutory Auditors

President
Takeshi Fukuzawa*

Executive Vice President
Shigeru Takagi*

Senior Managing Directors
Hiroshi Baba*
Hirofumi Okuizumi*
Katsuhisa Shimada*
Takayuki Hara*
Eiji Tan*
Shigeo Shimizu*

Managing Directors
Kaoru Kohno
Atsushi Morimoto
Yutaka Nakamura
Mikio Aoki
Terutake Miyamoto

Directors
Satoru Kishi
Tadataka Uchida
Taketo Yamazaki
Masahiro Yamanaka
Kenji Ohnishi
Iwao Makino
Toshiaki Hara
Satoshi Oyama
Kazuo Odagawa
Yasuto Suzuki
Hajime Ito
Hiroharu Koinuma
Hirotaka Kanki
Keiji Kimura

Statutory Auditors
Yasuo Satake
Yasuhiko Watanabe
Terumichi Tsuchida
Hiroshi Hayashi

*Representative Director

(as of June 29, 2000)

Corporate Information

Head Office:
Tokyo Building, 7-3, Marunouchi 2-chome, Chiyoda-ku,
Tokyo 100-8330, Japan
Telex: MECDIA J22174
Internet Home Page: http://www.mec.co.jp
Phone: (03) 3287-5100

Date of Establishment:
May 7, 1937

Paid-in Capital:
¥86,534 million

Number of Shares of Common Stock Issued:
1,299,185,054 shares

Number of Shareholders:
99,879 (excluding shareholders with less than 1,000 shares)

Major Shareholders:	% of total
The Bank of Tokyo-Mitsubishi, Limited	4.76
The Meiji Mutual Life Insurance Company	4.50
Taisei Corporation	3.72
The Mitsubishi Trust and Banking Corporation	3.44
The Tokio Marine and Fire Insurance Co., Ltd.	3.29
The Mitsubishi Trust and Banking Corporation (Trust Account)	2.52
The Sumitomo Trust & Banking Co., Ltd. (Trust Account)	2.43
Shimizu Corporation	2.39
Obayashi Corporation	2.31
Takenaka Corporation	2.17

Major Consolidated Subsidiaries:
Mitsubishi Real Estate Services Co., Ltd.
Mitsubishi Estate Home Co., Ltd.
Yokohama Royal Park Hotel Co., Ltd.
Aqua City Co., Ltd.
Marunouchi Heat Supply Co., Ltd.
Yokohama Sky Building Co., Ltd.
Royal Park Hotel Co., Ltd.
Rockefeller Group, Inc.

Stock Exchange Listings:
Tokyo Stock Exchange and other major Japanese stock exchanges

Transfer Agent and Registrar:
The Mitsubishi Trust and Banking Corporation
11-1, Nagatacho 2-chome, Chiyoda-ku, Tokyo 100-8212, Japan

Auditor:
Century Ota Showa & Co.

(as of March 31, 2000)

Organization

- Meeting of Shareholders
  - Board of Directors
    - Chairman of the Board
      - President
        - Executive Committee
        - Building Business Division
          - Building Business Promotion Department
          - Regional Business Planning & Promotion Office
          - Building Management Department
          - Marunouchi Area Building Management Office I
          - Marunouchi Area Building Management Office II
          - Marunouchi Area Building Management Office III
          - Yurakucho Area Building Management Office I
          - Yurakucho Area Building Management Office II
          - Otemachi Area Building Management Office I
          - Otemachi Area Building Management Office II
          - Aoyama Area Building Management Office
          - Metropolitan Area Building Management Office
          - Building Leasing Department
          - Shopping Center Business Department
          - Marunouchi Development Promotion Department
          - City Planning Project Office
          - Affiliated Companies
          - Chiba Liaison Office
        - Residential Development Division
          - Residential Development Promotion Department
          - Condominium Development Department
          - Master-Planned Development Department
            - Chiba Liaison Office
          - PARTNER System Department
          - Residential Planning & Marketing Department
            - Customer Service Office
          - Affiliated Companies
        - Architectural Design & Engineering Division
          - Architectural Design & Engineering Promotion Department
          - Architectural Technology Promotion Department
          - Architectural Design Department I
          - Architectural Design Department II
          - Architectural Design Department III
            - Urban Development Management Office
          - Residential Architectural Design & Engineering Department
          - Structural Engineering Department
          - Environmental, Mechanical & Electrical Engineering Department
            - Architectural Energy Consulting Office
          - Construction Administration Department
            - Construction Management Office
          - Architectural Renewal Design & Engineering Department
          - Civil Engineering & Landscape Design Department
            - Chiba Liaison Office
          - Marunouchi Design Department
          - Affiliated Companies
        - Urban Development & Investment Management Division
          - Urban Development & Investment Management Department
          - Appraisal Service Office
        - International Business Division
          - International Business Department
          - Affiliated Companies
        - Hotel Business Division
          - Hotel Business Department
          - Affiliated Companies
        - Recreational Facility Division
          - Recreational Facility Office
          - Affiliated Companies
        - Corporate Planning Division
          - Affiliated Companies
          - Corporate Planning Department
          - Affiliated Companies Business Planning Department
          - Personnel Planning Department
          - Finance & Accounting Department
          - Corporate Communications Department
          - Corporate Philanthropy & Environment Affairs Promotion Office
          - Affiliated Companies
        - Corporate Administration Division
          - General Affairs Department
            - Secretary Office
          - Purchasing Management Office
          - Corporate Ethics Office
        - Sapporo Branch
        - Tohoku Branch
        - Yokohama Branch
        - Nagoya Branch
        - Osaka Branch
        - Chugoku Branch
        - Kyushu Branch
  - Board of Statutory Auditors
  - Statutory Auditor
    - Office of Statutory Auditors

(as of April 1, 2000)

Mitsubishi Estate Group

Mitsubishi Estate Co., Ltd.

Building Business

Building Leasing Business
- ● Ryowa Fudosan Co., Ltd.
- ● Aqua City Co., Ltd.
- ● Hokuriku Estate Co., Ltd.
- ● Yokohama Sky Building Co., Ltd.
- ■ Tokyo Kotsu Kaikan Co., Ltd.
- ■ IMS Co., Ltd.
- ■ Keiyo Tochi Kaihatsu Co., Ltd.
- ■ Tokyo Ryutsu Center Inc.
- ■ Sunshine City Corporation

(4 other companies)

Building Management Business
- ● Mitsubishi Estate Building Management Yokohama Co., Ltd.
- ● Ryoei Building Management Co., Ltd.
- ● MEC Building Management Co., Ltd.
- ● Marunouchi Tatemono Kanri Co., Ltd.
- ● Chiyoda Tatemono Kanri Co., Ltd.
- ● Hokuryo City Service Co., Ltd.
- ● Hibiya City Co., Ltd.
- ● Yuden Building Kanri Co., Ltd.
- ■ O.A.P. Management Co., Ltd.

(5 other companies)

Parking Business
- ● Marunouchi Parking Co., Ltd.
- ● Grand Parking Center Co., Ltd.
- ● Hibiya City Parking Co., Ltd.
- ● Tokyo Garage Co., Ltd.

District Heating and Cooling Business
- ● Marunouchi Heat Supply Co., Ltd.
- ■ O.A.P. D.H.C. Supply Co., Ltd.
- ■ Minato Mirai 21 D.H.C Co., Ltd.
- ■ Ikebukuro D.H.C. Co., Ltd.

(1 other company)

Architectural Design & Engineering
- ● MEC Design International Corporation

(1 other company)

Custom-Built Housing
- ● Mitsubishi Estate Home Co., Ltd.
- ● Mitsubishi Estate Housing Component Co., Ltd.

Hotel Business
- ● Ryoei Kanko Development Co., Ltd.
- ● Tohoku Royal Park Hotel Co., Ltd.
- ● Yokohama Royal Park Hotel Co., Ltd.
- ● Meiryo Dai-ichi Kaihatsu Co., Ltd.
- ● Royal Park Hotel Co., Ltd.
- ■ Okayama International Hotel Co., Ltd.

(1 other company)

Recreational Facility
- ● Higashinihon Kaihatsu Co., Ltd.
- ● MEC Urban Resort Tohoku Co., Ltd.
- ● Fuji International Speedway Co., Ltd.
- ● Liv Sports Co., Ltd.

(6 other companies)

International Business
- ● Rockefeller Group, Inc. (RGI)

(● 151 other companies
■ 13 other companies)

Others
- ● MEC Finance Co., Ltd.
- ● MEC Information Development Co., Ltd.
- ■ Ryomei Royal Life Co., Ltd.

(7 other companies)

Residential Development
- ● Izumi Park Town Service Co., Ltd.
- ● Daiya Community Co., Ltd.
- ● Mitsubishi Real Estate Services Co., Ltd.
- ● Ryoei Life Service Co., Ltd.
- ■ Otaru Toshi Kaihatsu Kosha Co., Ltd.

(2 other companies)

● Consolidated Subsidiaries
■ Equity-method Affiliates

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Tokyo Building, 7-3, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8330, Japan
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